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Transport



Blind cc: Press
Mr Wolfson
Mr Duguid

10 DOWNING STREET

From the Private Secretary

7 August, 1981

British Rail

The Prime Minister has considered your Minister's minutes of 4 and 6 August, and also the Chancellor of the Exchequer's minute of 5 August.

The Prime Minister is content with the course of action proposed by Mr Clarke, and she has noted that Mr Fowler will be coming back to London in the middle of next week to review the situation. If there is still the threat of a strike in two weeks time, the Prime Minister will wish to consult further with those Ministers most closely concerned.

As for the Chancellor's suggestion that the Government should mount a major campaign about British Rail's pay and productivity, the Prime Minister agrees with Mr Clarke that it would be better not to mount such a campaign at this stage. But she thinks a campaign might well be needed if, after another two weeks, a strike looks probable.

I am sending a copy of this letter to Peter Jenkins (HM Treasury).

T. P. LANKESTER

N T E Hoyle, Esq
Department of Transport

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A. Walters

A. Duguid

J. Venkat

PRIME MINISTER

BRITISH RAIL PAY

Your Private Secretary's minute of 7 August indicated that you would wish to consult further with those Ministers most closely concerned if there was still a threat of a rail strike in two weeks time. Before he left the Chancellor asked me to let you have a note in his absence setting out his views on the importance of securing a satisfactory outcome in the present negotiations. Since then I have seen the Secretary of State for Transport's minute of 11 August.

Some of the worrying aspects of the prospect on pay over the next few months were set out in Geoffrey's minute to you of 4 August on public sector pay. I will not repeat that here. I would only add that when Sir Michael Edwardes (at his own initiative) came to see Geoffrey about pay earlier this week, he specifically mentioned that if British Rail were to concede the full 11 per cent without agreement on productivity it would make his situation very difficult. The main group of private sector settlements in the autumn is in the motor industry. To concede the claim of the rail unions could have serious repercussions on subsequent settlements not only in the public but also in the private sector.

It does therefore seem most important that the British Railways Board do not move beyond the position recorded in Kenneth Clarke's minute of 6 August, and that the means to finance the RSNT award are fully secured before concessions are made. If the repercussions are to be tolerable such concessions must be seen to be self-financing. British Rail is not in any case in a financial position to make concessions on any other basis; and even on this basis they would be allowing productivity improvements required to finance future investment (for example electrification) to be diverted into pay.

Geoffrey appreciates the seriousness of the strike threat as set out in the CCU report circulated by the Home Secretary's Office. He feels that

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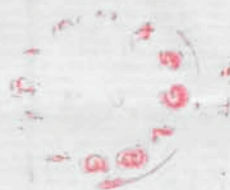
should equally not be in any doubt about the seriousness of conceding the rail unions' demands, if that proves to be the alternative to a strike.

I am copying this minute to Norman Fowler.

Ywest
pp NIGEL LAWSON
(approved by the Financial
Secretary and signed in his
absence)



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