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cc PWS [signature]



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PRIME MINISTER

PAY PROSPECTS FOR 1985/86 AND LONGER TERM ARRANGEMENTS
FOR CIVIL SERVICE PAY

I regret that I shall be unable to attend the meeting of MISC 66 on Friday
27 September.

The position, as reported, on pay prospects for 1985/86 is a worrying one, not least for the effect which it will have on unit labour costs in industry and hence on our relative competitiveness at a time when exchange rate movements are making exporting more difficult.

I know that colleagues have been at pains to make the necessary points in speeches and interviews about the need for pay moderation, if jobs growth is to be sustained, but we need to get across the message to pay bargainers, and to workforces generally, that this is not essentially a political message, but an economic fact of life. The price of real pay increases above the levels of our competitors will be counted in lost jobs, either their own or someone else's. If the character of this message is to be fully understood, it should be heard from industrialists, commentators (particularly in the popular press) and trades unionists; and not simply those at a national level, but also at local levels, where so much pay bargaining occurs.

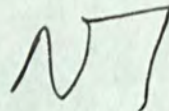
I hope that, at Friday's meeting, it may be possible to lay plans for making approaches to industrial and employment organisations, building on the valuable work already done by the CBI and others; and to bring journalists into the picture, perhaps by seeking dramatic examples, both of growing firms with secure jobs based on moderate pay rises, and the converse.

On longer term pay arrangements for the Civil Service, I have read with interest the stage reached in negotiations on the Megaw Inquiry recommendations in MISC 66(85) 3. I agree that our options now hinge on the acceptability or otherwise of automatic and regular levels surveys.

While we are rightly proposing to resist the unions' position on "catching up", I believe we should be fully aware of the potential for damaging repercussions in the pay environment generally of pay awards to the non-industrial civil service at levels substantially above the going rate. Even though the proposed system will constrain the pressure for excessive single-year awards, we should be aware that automatic levels surveys will be used as a stalking-horse for catching-up claims over subsequent years. While we are aiming to avoid a further "ratchetting down" of Civil Service Pay, I would not welcome a system, readmitting comparability to a greater extent, which allowed for a "ratchetting up".

I should therefore support option (d), as described in paragraph 9 of the Treasury note, including indicating a willingness to continue discussion on the timing and content of levels surveys.

I am copying this minute to Leon Brittan, Nigel Lawson, Douglas Hurd, Keith Joseph, Peter Walker, Michael Heseltine, George Younger, Norman Fowler, Nick Ridley, David Young, Kenneth Baker, Kenneth Clarke, Richard Luce, Ian Gow, and to Sir Robert Armstrong.



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