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19 November 1982

The Rt. Hon. Nigel Lawson MP
Secretary of State for Energy

This is a good presentation. Note the admission (for the first time) that we cannot indefinitely hold back public service pay if the NI's consistently outstrip them.

J.
23/11

NATIONALISED INDUSTRY PAY

You will have seen my minute of 27 October to the Prime Minister and her Private Secretary's reply of 8 November.

Following the miners' settlement, and with the improved prospects for settling the NHS dispute, it is clear that what happens in the public trading sector in the coming months will to a very large extent determine what happens in the pay round this winter. We must bring all the influence we can to bear on negotiations.

... I enclose a note for use by colleagues with responsibility for nationalised industries deploying the arguments for low wage increases in the current round; 3.5 per cent to 4 per cent is the sort of figure we shall be looking for. (I am grateful to Tom King for getting this message across to the employers' side in the current negotiations in the Water industry.) The note is in general terms and you will wish to augment this with material relevant to the circumstances of each industry.

... I also think it important, in discussing pay with nationalised industry Chairmen, to get from them in specific terms what their objectives will be in the pay negotiations for which they are individually responsible. I am not suggesting that we should get involved in actual negotiations, but if any of the Chairmen are harbouring aims for their own industries which are inconsistent with the general thesis of the enclosed note, it is important we should all be aware of them at the earliest possible moment so that we can consider what action we may need to take to correct them.

Why no deadline for reply?

I am copying this to the Prime Minister, to members of E Committee, to the Secretaries of State for Scotland and Wales, the Minister for Local Government and Environmental Services, and to Mr Sparrow and Sir Robert Armstrong.

GEOFFREY HOWE



NATIONALISED INDUSTRY PAY NEGOTIATIONS

Notes for Sponsor Ministers

1. The key to our economic recovery must lie in an improvement in industrial competitiveness. This in turn is heavily dependent on our ability to restrain increases in pay. As the CBI's recent presentations have underlined, pay is by far the largest single constituent of industrial costs. This applies to most nationalised industries as well as to the private sector.
2. Large pay settlements have been chiefly responsible for the very high wage costs per unit of output which prevail in the UK in comparison with the costs ruling in those countries with which we compete. We must attribute much of the current level of unemployment and the loss of jobs in manufacturing industry to this difference in relative costs which was aggravated by the pay explosion of 1979-80. But high pay settlements in the nationalised industries are particularly damaging since they push up the price of goods and services which are widely used throughout the economy and so feed back indirectly into industrial costs, worsening our competitive position still further. It is therefore disturbing that, over the year to August 1982, increases in average earnings in the nationalised industries were marginally ahead of those for the private sector and markedly ahead of those for the public services.
3. In the coming year, we must look for much lower settlements. Inflation has been slowing rapidly and we are forecasting only a 5% increase in prices for 1983 as a whole - a rate which we have not achieved for more than a decade. Expectations about pay must fall in line with inflation. They will do so, provided negotiations are handled firmly and the right message is put across. This must include the all-important connection between uncompetitively high industrial costs and unemployment.



4. In the public services, the Government has firmly resisted claims for wage increases beyond the levels necessary to recruit retain and motivate staff, despite prolonged industrial action by civil servants in 1981 and similar action by NHS workers this year. It has clearly signalled its intentions for the coming year by announcing that pay increases must be accommodated within an increased cash provision for 1983-84 of only 3½% over the previous financial year. Nationalised industry employers need to adopt an equally firm stance.

5. The miners' increase of 6.5% on earnings, while less than the increases in rates which have received publicity, was still too high, against our inflation forecasts and the current level of unemployment. It must on no account be taken as a general signal for settlements at that level in the other nationalised industries. Allowing for drift, even settlements at 4% would produce earnings increases of around 6%. The Government would find it increasingly difficult to maintain strict control over the pay of its own direct employees if settlements approaching twice the level it had planned for them became the rule in the nationalised industries. The public are already critical of the way in which nationalised industry prices have risen in recent years and would not tolerate further increases which could be attributed directly to excessive pay settlements.

6. At the same time, workers in the nationalised industries are now less likely to take prolonged industrial action than they were at the beginning of the 1970s. Levels of unemployment are much higher and claims on disposable incomes greater and more varied than they were then. As a result, rank and file union members, especially those enjoying above average earnings, are increasingly apt to weigh the likely loss of earnings during strike action against any possible advantages to be achieved from militancy.



We have already seen signs of the growing realism of the workforce in the size of the miners' vote against industrial action, despite the intensity of the NUM campaign. All this strengthens the case for nationalised industry employers taking a firm stand on pay in the coming months.

H M TREASURY
November 1982

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PA
MR SCHOLAR

NATIONALISED INDUSTRY PAY

The Chancellor's letter to Nigel Lawson is admirably resolute, but would it be worth suggesting that he should add a deadline for reply from the nationalised industry chairmen in order that we should have plenty of warning of their intentions?

fm
FERDINAND MOUNT