Econ Pol

MR SCHOLAR

2

Prime Minister

cc Mr Mount
Mr Walters
Mr Ingham

MS 10/12

PAY

As you know, we are now approaching one of the periodic critical weeks for the pay round. It may be helpful for the Prime Minister to have this note in her weekend box by way of interpretation of where we have got to, and as an indication of what we may expect. No decisions are sought: the necessary action is being pursued through the normal monitoring machinery.

There have been two important developments this week. First, the special pay conferences of the Civil Service Unions have met. They have made extensive disapproving noises about the Megaw pay system, but have in each case authorised their Executives to negotiate without commitment. And they have endorsed the principle of preferential treatment for the low paid, of which we are going to hear a lot more during this pay round. We shall have to work particularly hard to establish in the public mind the connection between raising low pay and raising unemployment. Second, the employers have made their 3% opening offer to local authority manuals. This is correctly being interpreted as another attempt by the Government to encourage the NHS unions to accept their deal, which of course includes 4½% for next year; but it is a lower offer than I personally expected, and a tribute to the effectiveness of the lobbying which the Chancellor and Mr Heseltine have been able to do with the now Conservative-controlled LACSAB. And first indications are that although the Unions expect a bit more, they are not in the mood for a fight.

Next week, as Mr Fowler has reported to Cabinet, the NHS dispute comes to yet another head with the meetings on Wednesday of the TUC Health Service Committee, and on Thursday of the NHS Whitley Council. I think there is little doubt that the Nurses will be shown to have accepted their offer; but I am less sure than Mr Fowler that that will do the trick with the Ancillaries.

On the limited evidence available so far, both NUPE and COHSE are split. I doubt very much if there will be extensive support for the all-out strike which the union executives have said is the only alternative to acceptance; but I do think it likely that the outcome will be confused, with some unions wanting a one-year deal only, and some wanting to continue a degree of industrial action. So the dispute may drag on untidily into the new year.

Meanwhile, all these developments may be having some effect on the Water Workers. They are not likely to be much influenced by what happens in the NHS, but the 3% offer to the local authority manuals does make their 4% look better. There are some indications now that the position of both sides in the dispute is softening a bit. The TUC has been leaning on the unions to honour the arbitration agreement. And Mr King has told the employers that he would condone an increase in the offer to 4½% if that would make it easier to get to arbitration. It would still be much better for the employers to make no move at all, and keep up the pressure on ACAS; but the scene does seem to be setting for a compromise rather than industrial action.

The Prime Minister will have seen the letters coming in from her colleagues responsible for the Nationalised Industries. Discussions have now taken place with all the main Nationalised Industry Chairmen, and their expectations do seem to have been reined back a bit. The hardest nuts to crack will be the monopoly energy industries, where opening offers in the region of 5% are expected, but settlements within 6.5% of the actual miners' settlement (rather than the 8.2% widely quoted) are possible. In the transport sector, BR are planning on 4½%, which could be worse. And Patrick Jenkin reports that his clients, who in the past have often been leading offenders, are beginning to see the light; British Shipbuilders are aiming for zero, as are BSC (although BSC usually gives big payments for productivity); the Post Office hopes to be below the prevailing rate of inflation; and even BT has given notice of termination of their unilateral arbitration agreement. Nonetheless, in general the prospect in the Nationalised Industries is for settlements 2% or so higher than we would wish, and Treasury officials will be asking the Chancellor whether he wishes to intervene more directly.

Assessment

The prospects for the pay round are broadly satisfactory at this stage. There is no likelihood of public sector pay breaking loose. We may well end up with average earnings roughly in line with the low rate of inflation that is expected for next year, which is much as we hoped when Cabinet decided on the pay factor earlier in the Autumn. But, with our competitors in Germany and Japan settling for a couple of ~~pounds~~ points below their rates of inflation, pay is not making much contribution yet to higher employment.

JV.

JOHN VEREKER
10 December 1982