

VEREKER

Econ Pol.

cc Mr Mount
Prof. Walters
Mr Scholar.



PAY

Your parting thoughts about pay are very interesting and have sparked me to make the following contribution.

Your initial point about the relative success of this Government's market approach should not blind us to reality. This Government has been remarkably - some would say astonishingly - successful in moderating pay settlements even though market forces have been very weak in a number of areas. That success does not stem solely from its approach and supporting policies. It arises, too, from the high international level of unemployment; from moderating inflation (for other than domestic reasons); and from the demoralisation of the trade union movement.

Moreover, that demoralisation - and the bankruptcy of the trade union movement's leadership - is complemented by the divisions within and bankruptcy of its political wing, the Labour Party. The trade unions have not recovered from the realisation that their excesses put their Government out of office.

In other words the whole atmosphere and environment is against the application of trade union power. Thus I do not believe we can look at the current pay scene merely in economic terms. The situation is much more complex than that.

It follows that keeping the lid on pay bargaining is not simply a question of continuing to allow market forces to operate within a supportive framework of monetary, fiscal and social policies.

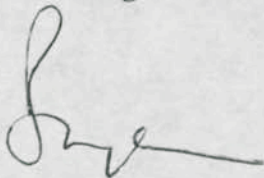
And I think we shall fail to keep the lid on when the economy starts to take off unless:

- we recognise that the labour market is going to be defective for a long time to come; we are, for example, unlikely to get rid of the closed-shop in the foreseeable future though we must do everything we can to free up the market;

- we stop kidding ourselves that this Government's peculiar form of incomes policy has left no pent up demand;
- we accept that the trade union movement's objectives are more political than institutional - more associated with the advancement of their power than with the advancement of their members' condition; in other words, that they can be relied upon to act irrationally in terms of their members' interests;
- we determine to press ahead rapidly with the democratisation of the unions and to require procedures, ballots, etc (which were the subject of a separate minute); and, last but not least,
- we pay a considerable amount of attention to supporting strong, fair and inventive management and to the economic education of individual workers; in other words by-passing unions and addressing their members over their heads.

I would add one other thing: having had the guts to stand out for greater reason during distressingly high levels of unemployment, we must resist the temptation to go soft when we feel we can afford a bit more elbow room.

Forgive me if I see the pay situation much more strongly a political than what might be described as classically economic terms. But the Government's resolute determination to maintain its policies and distance from the trade union movement and to act on labour monopoly in the early months of a new Parliament is crucial, otherwise, possibly all the gain of the last few years will be lost.



B. INGHAM

16 March 1983