



LC N.O.  
Prime Minister (2)

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

MUS 11/7

8 July 1983

The Rt. Hon. Norman Tebbit MP  
Secretary of State for Employment

*Norman Tebbit*

*CBI*  
*mt*

You wrote to me on 4 July about the prospects for the next pay round and the general approach which we should adopt.

I share your concern that average pay settlement rates should continue to decline. This has a critical role to play in our general economic strategy if we are to get the revival of economic growth for which we are hoping. I am in no doubt, therefore, that we must seek the best means we can to secure low settlements for those groups for which we are directly responsible as employer, or where we have some control of the outcome. Example matters more than precept. The CBI and employers generally in the private sector will be looking to see what we do.

We must also set the right fiscal climate. We shall soon be starting our discussions on the expenditure plans for 1984-85 and beyond, and we must ensure that cash limits affecting the public services sector and the EFLs for nationalised industries, are tightly drawn and leave no room for extravagance in pay negotiations.

However, I am sceptical about the extent to which we can influence the level of private sector pay settlements through exhortation. Actions will speak much louder than words. Nor do I think it is desirable to set "norms" which, as you say, are liable to be counter-productive if exceeded; and tend to be treated by trades unions as targets to be broken. I gather that the figure of 2-3 per cent was not put about by the CBI, but was a construction put by the press on the CBI's general approach. In any case it would not be profitable for us to try to modify it to some other figure.

The CBI will shortly be discussing with their members the approach to be adopted towards the coming pay round, and they have invited me to view the presentation they have prepared later this month. I shall, of course, encourage them to put their message across convincingly and firmly. I think the best support we can give them in our public speeches is the more general one of continuing to stress the key links between the level of pay increases, competitiveness and jobs. We should also bring out the point you mention about the recent increases in the standard of living of those in employment; and we should discourage any idea that a temporary rise in the rate of increase of the RPI may signal a new trend.

Gen Pol: Stanley P470



I am arranging for the circulation of some general guidance notes on these points which colleagues might use in their speeches during the coming months. On the whole, I doubt whether a collective discussion of the general subject in E Committee is needed just at the moment. There will be a number of specific issues which are likely to call for collective discussion in any event, such as NHS staff and police pay and, as you point out, we shall also need to discuss the pay assumptions for public expenditure in the not too distant future. These should provide adequate opportunities for colleagues to discuss the general approach.

I am copying this letter to the Prime Minister.

A handwritten signature in black ink, appearing to read "Nigel Lawson".

NIGEL LAWSON

71 JUL 1983



10 DOWNING STREET

Prime Minister

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flag A

flag B

Norman Tesbit and Ferdie Mount

argue for a E(S) or E(A)

discussion on pay. I think this a

good idea provided it is focussed on

specific decisions - e.g. what should

the public service pay factor be.

The Chancellor is, I am told,

against, believing that general

monetary conditions will have the

most effect on pay, and that the

discussion is unlikely to be useful.

Do you want a discussion?

P.T.O.

Study it  
will come up  
on our big  
Public expenditure  
Committee

Or will you mention to the  
Chancellor on Wednesday?

MS 8/7

SECRET

5 July 1983

Policy Unit

PRIME MINISTER

PAY

Norman Tebbit is surely right in arguing that "we cannot wait until the autumn to review the prospects for pay and to decide on the message we should be seeking to get across". We ought to be building now on the impression that we are thinking of settlements of 2-3 per cent in the public sector. The Chancellor, I understand, believes that the Government's leverage on private sector settlements is negligible. This, I am sure, is true once the "going rate" has been established. But the anticipated level of public sector settlements is one factor in determining the going rate, both in the nationalised industries and in private industry. Already Arthur Scargill is seizing on any settlements that he can find in double figures as arguments for comparable pay rises for the miners. We surely ought to be helping to create the climate of expectations rather than responding to it. Nobody pretends that our influence will be more than marginal, but if it is to be marginally in the direction of greater realism - and lower unemployment - we ought to make our intentions plain before the summer holidays.

Norman argues quite correctly that there is a false impression going around that people in work have made sacrifices and deserve compensation as soon as the economy begins to grow again. Pay settlements in the private sector may already be drifting upwards, and delay can only be damaging. We must maintain a year-by-year momentum downwards.

When you see the Chancellor tomorrow, you may wish to discuss how the Government is to apply a coherent set of pressures in this direction. \_\_\_\_\_

FERDINAND MOUNT

SECRET



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Prime Minister

Mus 4/7

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Great George Street  
LONDON  
SW1

4 July 1983

D Nigel,

PAY

I would very much welcome a discussion with colleagues before the Recess of the prospects for pay settlements over the next year and on the approach we should now begin to adopt, or contemplate, to influence the outcome.

The traditional pay round will begin with inflation rising slightly, a slowing in the increase of unemployment, increasing output and some easing of the financial pressures on companies. There is also a general - but false - impression that the standards of living of employees have been lowered. There is therefore a real danger that the downward pressures on expectations for pay, of both employers and unions, will be weakened.

Although it is not necessary to decide before the Autumn the question of a pay factor in the establishment of cash limits for the public services or decide the external financing limits for the public trading sector, I nevertheless believe that we cannot wait until then to review the prospects for pay and to decide on the message we should be seeking to get across. Somewhat fortuitously the CBI is seen as advocating that settlements should be at a level of not more than 2-3%. As private sector settlements emerge - as they quickly will - exceeding that level, there is an added risk that it will be thought that attempts to restrain pay increases are proving ineffectual.

I very much hope therefore that you agree that we should have an early discussion, I suggest on the basis of a paper which you would circulate.

I am copying this letter to the Prime Minister.

*J Lawson*

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6 JUL 1983