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Prime Minister (2)

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LOCAL GOVERNMENT

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

28 October 1982

The Rt Hon Tom King MP
Minister for Local Government and
Environmental Services
Department of the Environment
2 Marsham Street
LONDON SW1

Dear Tom

WATER INDUSTRY PAY MACHINERY

Thank you for your letter of 20 October. I have also seen *attached* Ferdy Mount's letter of 22 October. *will request if required*

I rather share the views which Ferdy has expressed. One can well see why the employers are nervous about dealing separately with a union side which has stated its intention of continuing to co-ordinate tactics on a national basis. But separate negotiations need not exclude the possibility of co-ordination among employers, at least to the extent of ensuring that they do not undermine each others' positions. And we are also entitled to be sceptical about the extent to which the unions could in practice maintain full co-ordination indefinitely.

Nor should we overlook the potential advantages of decentralisation. Even if separate regional negotiations made no difference to the level of settlements achieved, I still think that the replacement of one prominent settlement with a number of less significant ones could be presentationally helpful. And decentralisation could surely only be helpful to the important objective of getting greater flexibility to reflect local labour market conditions. Finally any industrial action, and the threat of such action, could become more localised and easier to handle.

These considerations lead me to the same conclusion as in Ferdy Mount's letter. Let us wait until this year's pay negotiations are over and we have seen whether the employers are able to give a good account of themselves in national negotiations. We can then consider again the balance of advantage between national and decentralised bargaining. I understand that there is no urgency about the question of future pay arrangements, at least until the Water Bill passes into law in the spring of next year.

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Next Health, NHS Pay, Pt 2

Perhaps I could also take this opportunity to support what Norman Fowler says in his minute of 25 October to the Prime Minister about the potential impact of a high settlement with the water workers on the National Health Service negotiations. I do hope that the water employers are well seized of the wider damage which such a settlement could do. Any tendency, for example, to regard labour costs as relatively unimportant at the margin because the industry is not very labour intensive, would be most unsatisfactory.

I am copying this letter to the Prime Minister, Norman Tebbit, Nigel Lawson, Patrick Jenkin, Norman Fowler, Peter Walker, Nicholas Edwards and George Younger, and to Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

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10 DOWNING STREET

The Right Honourable
Tom King, MP,
Department of the Environment,
2 Marsham Street,
London, SW1.

22 October 1982

Dear Tom,

WATER INDUSTRY MACHINERY FOR PAY

I understand that you have told the Chancellor of your intention not to intervene in the final decision of a negotiating arrangement. As you say, it would indeed be difficult to legislate for decentralised bargaining against the will of both parties.

All the same, the results achieved by the present system are scarcely brilliant. And I rather doubt whether the unions are keen to hang on to centralised bargaining purely for internal political reasons. Experience in most public monopolies, not only here but in the United States, is surely that decentralised bargaining does reduce the power and cohesion of even the best organised trade union and does, albeit gradually, bring bargaining closer to local realities and so leads to regional pay differentiations. True, the water unions have a strong tradition of negotiating nationally, but in this case it is unlikely also to be the case that decentralised bargaining would mean leapfrogging.

The other possibility is that the poor results of the National Water Council were due largely to poor leadership. Bill Dugdale is certainly likely to prove a tougher nut than his predecessor.

The coming pay round, against a background of sharply falling inflation, will prove a good test. If it turns out poorly, then surely we ought to have another look at the possibility of decentralising pay bargaining - which was, after all, at least one reason for getting rid of the National Water Council. I am copying this letter to the Chancellor of the Exchequer.

*Yours ever
Ferdinand*

FERDINAND MOUNT

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