

PRIME MINISTER

✓ c.c. Mr Norgrove

Tommy Thompson has sent you his latest research on "The Union Mood and the 1986/87 Pay Round".

I attach a copy of the summary.

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17.10.86

COMMENTARY ON KEY FINDINGS

1. The mood of workers, as the 1986-87 pay round begins, is ideal for employers to tackle a fundamental problem for industry: – that their competitive position vis a vis foreign companies steadily erodes as wage settlements here continue to run ahead of inflation.
2. Employers have a golden chance to take a tougher line on pay settlements as they have been exhorted to do both by the Government and their own organisations such as the C.B.I.
3. At a time when inflation is running at around the 2½% mark all the signs are that wage settlements in the coming pay round will be more than twice that. Yet this survey, perhaps the most important since we began monitoring pay expectations seven years ago shows that workers are in a mood to accept less.
4. Pay expectations for the coming pay round have ebbed sharply since the last survey. A year ago only 32% of full time workers said that they would settle for 5% or less. This year the figure is up to 43% – and 56% say that they would settle for 6% or less.
5. But the signs are that if employers take a firm enough line in pay negotiations they could bring the settlement figure lower.
6. Furthermore workers are keenly aware of the importance of improving productivity and very receptive to the sort of “improved pay for increased productivity” Sir Terence Beckett has been calling for.
7. The survey shows that at present . . .
 - There is no trace of militancy among the great majority of full time workers
 - workers do not want unions or negotiators to ‘take on’ either the Government or employers
 - overwhelmingly workers are in favour of pay deals linked to improved productivity
 - overwhelmingly too they are for unions co-operating constructively with management not fighting them.

IN OTHER WORDS IF EVER THERE WAS A TIME TO GET REALISTIC PAY SETTLEMENTS WHICH RELATE TO INDUSTRY’S COMPETITIVENESS, THE NATIONAL INTEREST (AND INDEED THE TRUE LONG TERM INTEREST) OF WORKERS THEMSELVES IT IS NOW.
8. The reason for this lack of steam behind pay expectation is almost certainly that the benefits of lower inflation are beginning to get through. There is a surprisingly accurate knowledge of the present state of inflation.
9. The great majority of workers (66%) expect prices to rise by 5% or less by the end of the year and 51% say that the present rate of inflation is between 3% and 4%.

10. There is a slight improvement of understanding of the link between pay restraint and control of inflation this year – nevertheless a great deal of communication effort needs to be made both by employers and the Government to get this key point across. At present the great majority of workers are unwilling or unable to see the key importance of moderate wage settlements . . .
- The great majority of them hold the view that: “Workers must get pay increases next time which are at least equal to the rise in the cost of living”.
11. Fewer workers than at any time since we began monitoring attitudes to pay expect a battle over pay this winter.
12. More significant is that only a small minority want a battle over pay . . .
- Nearly eight out of ten think that both the Government and unions should avoid seeking a battle.
 - Only 9% would like those negotiating pay to take a militant line compared with 88% who want negotiators to take a responsible line “BECAUSE JOBS ARE MORE IMPORTANT THAN WAGES JUST NOW”.
 - Almost seven out of ten would be against strike action to back a pay claim.
 - Six out of ten think that the power of the unions is weaker than it was three years ago.
13. Summing all this up the climate for the coming pay round is as follows:–
- Workers are in a realistic mood.
 - They are in a responsible mood.
 - They believe the unions have a weak bargaining position.
 - They do not want industrial action over pay.
 - They believe that jobs are more important than pay rises in 1986/87.
 - Overwhelmingly (85%) they want unions to concentrate on saving jobs not getting good pay increases.
14. Even the small minority (11%) who think the unions should, give getting good pay rises priority, are basically realistic: they believe that the best way of getting good pay rises is not by fighting management for it but by co-operating with management and accepting productivity deals.
- In other words, if ever there was a time when management was in a good position to strike deals on productivity increases it is in the present climate of opinion among workers.
15. The great majority of workers think that their own job is secure. But there is still rising concern and anxiety over unemployment and a fair summary of what most employees think is as follows:–
- “I think my own job is secure but unemployment is at a high level. I don’t think this is the moment to rock the boat over pay. It would be better to get a pay increase in return for increased productivity than by taking a militant line over pay”.

16. If anything, workers think that industry is in a worse state than a year ago. There is no feeling that industry has put its problem behind it, that it is on the up and up, is more competitive, more efficient and producing higher quality goods and services.
17. While this perception of the state of industry may be helpful in negotiating the pay round it is worrying in the broader sense and senior management should consider the morale aspect of it too.
18. As our previous reports have shown, once again this survey has one message for companies with problems:-

If you are in trouble or if you can't afford what the workers are asking - tell it. Tell them. Explain the facts to employees, not through the unions but direct to your workers. If they are given the facts and can be convinced that they are the facts they are likely to modify their pay expectations.

19. There is one very important communication task for both employers and Government: to convince workers intellectually that moderate pay increases are in their own best interest.

The case for increased productivity has got across.

The case for pay restraint has not.

20. As we have done for six years we supplied those interviewed with a list of eight factors and asked them to choose how much help each would be in getting the country out of recession and the economy growing again . . .

Increased productivity came top	56%
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Lower pay settlements came bottom	13%
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These figures tell the whole story of the failure of communications on an all important topic.