

1. MR SCHOLAR

2. PRIME MINISTER

Worth mentioning at meeting with CBI?

PAY PRESENTATION

I held a meeting of Chief Information Officers of the main economic Departments today on the question of pay policy. The meeting was unanimous on the need for the Government to influence opinion before the Recess, and for you to leave the CBI on Monday in no doubt about the importance of moderation in the private sector.

The Departments represented were: Treasury; Employment; Industry; Environment; Energy; Transport; DHSS; Scottish Office, ^{Home Office,} Nick Owen was also there.

Present Negotiating Round

First we looked at the present situation, with the negotiating round virtually complete. The main outstanding problems are:

- top salaries (crucial to the atmosphere);
- rail;
- health service (threat to re-open) linked with nurses' pay determination machinery.

Otherwise negotiations over the last 12 months had gone relatively successfully, though settlements remained well ahead of inflation.

Other Problems

Apart from nurses' pay machinery, we need in the foreseeable future to be aware of four factors if only from a timing point of view:

- Confederation of Shipbuilding and Engineering Union's conference (next week);
- NUM conference, Perth (first week in July);
- police pay - according to Edmund Davies' formula (late July);

Mr. Scholar
Thank you.
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→ Mr Butler

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- Trades Union Congress, though probably an agonised political event (first week of September).

Perspective

We concluded that you start your second term of Government in a very strong position:

- those in work have done very well out of it; they emerge from the depression not merely with their standard of living intact but improved, though they may not believe it;
- the average increase in earnings is well ahead of the rise in prices; the real post-tax income of a married man with two children rose 3% in year April 1983;
- the trade union movement is in no condition after 2 election defeats to mount a decisive challenge and is likely to be divisively preoccupied over the next few months with the Labour leadership;
- a greater awareness among the rank and file of the link between pay, productivity, prices and jobs;

On the other hand we see dangers in:

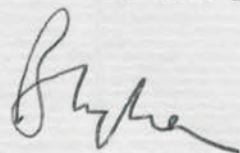
- the Government's stunning victory and the tendency, if not positively checked, to rest on its laurels when action is required;
- the natural tendency for people, whatever their heads may tell them, to try to make good what they feel is lost ground as the economy expands;
- a tendency for inflation to rise over the rest of this year instead of to fall, bringing ^{fear of} a return to higher inflation and the need to compensate for it;
- two institutional factors - a helpless (and hopeless) trade union movement which is incapable of pursuing its members' interests (as distinct from identifying them); and the incompetence of the generality of private sector companies in protecting their competitive trading interest;
- the worrying tendency in the Civil Service/public sector to come up with new and apparently flabby comparability formulae, regardless of market forces;

- a potential failure on the part of Government to realise the importance of influencing opinion now, immediately after its election, to meet hopes, expectations or predictions that it will relax the second time around.

Conclusion

We reached, unanimously, the following conclusions:

1. the Government must take seriously the urgent need to influence rank and file opinion, appealing to them over union heads, towards the next negotiating round; (we may wish to get away from annual rounds, but for the moment we are stuck with them);
2. its clear message should be:
 - (i) large settlements are a thing of the past;
 - (ii) there can be no let up in the drive to hold down wage settlements and to offset their cost with higher efficiency, output and productivity;
 - (iii) those in work have done very well, falling inflation has provided real increases in the standard of living, even with declining settlements;
 - (iv) those in work have an obligation to the unemployed:- low settlements, offset by productivity, create the means - a recovery in profitability and in competitiveness - to create new jobs;
 - (v) there is no substitute for working our way steadily out of recession and behaving sensibly, responsibly and with moderation - the real message of the election;
3. the Government must lose no opportunity to get over its message at an early date; there is a risk that a sullen, demoralised and confused trade union movement could turn nasty unless it recognises the smack of firm Government; and
4. the place to start is with the CBI on Monday.



B. INGHAM

21 June 1983