

Confidential Filing

Public attitudes on Pay.
Influencing National Pay Behaviour
Presentation of the Government's Economic
Strategy. Ministers' Speaking Notes.

INFORMATION & PUBLICITY

Part 1: July 1979

Part 2: July 1980.

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PREM 19/495

PERSONAL

(2)



Mr Ingham

Prime Minister

MUS 17/11

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

17 November 1981

*Info +
Rebate*

The Rt. Hon. Cecil Parkinson, MP
Paymaster General and Chairman of the
Conservative Party
Privy Council Office
Whitehall
LONDON
SW1

mt

Dear Cecil

I have been reading, with admiration, the Central Office press release of the speech which Quintin Hailsham made to the Oxford University Conservative Association on 6 November. Not for the first time, it seems to me that Quintin strikes exactly the right note - instructive, but not didactic - in his description of the causes of our current economic difficulties, and the various panaceas on offer. And, also not for the first time, it seems to me a very great pity that, unless I missed some reports, press coverage of the speech has been quite inadequate.

I wonder whether there is anything that we can do to remedy this for the future. If, for example, Francis Pym's or Number 10's or the Treasury's press people were given advance notification of a major speech of this kind we could ensure that the appropriate correspondents were tipped off. My people might be able to give particular help with financial and economic correspondents if the speech had an economic theme. It seems a shame to see so much fragrance wasted on the desert air, if a Cambridge man may so describe OUCA.

I am sending a copy of this letter to Quintin and Francis, as also to the Prime Minister. No doubt you or he will let me know if you see any merit in my suggestion of some advance preparation of the ground in Fleet Street next time.

[Handwritten signature]

GEOFFREY HOWE

THE COST OF STRIKESOBJECTIVE

The object of this note is to provide material for Ministers to use in their speeches, broadcasts or writing over the next few weeks, to build on the much improved industrial relations record in British industry this year, and to put across the need for employees to think carefully about their own self interest, and the interest of their companies, before voting for strike action. It is addressed particularly to employees.

PRESENTATION

As Jim Prior reminded the Party Conference on 8 October, there were fewer strikes in the last three months than in any three month period during the last 30 years. That is immensely encouraging for the nation; it may show that responsibility and realism are taking the place of confrontation.

It's responsible, because it shows that many negotiators are providing the leadership which is needed by all those union members - the large majority, according to the opinion polls - who know they can't expect pay rises to keep pace with inflation. They know that otherwise they'll be pricing themselves and others out of a job.

And it's realistic, because the surest way to worsen a company's financial position and put jobs at risk is to take industrial action. Confrontation is no way to achieve the higher standards of living that we all want. That only comes from higher output and higher productivity. You don't get that by striking.

Even in strong companies, taking industrial action can lose output and markets permanently. In the public sector, too, disruption or excessive wages often mean reduced services and more unemployment. And it certainly isn't the case that employees are able to strike these days at virtually no cost to their own pockets, or to the welfare of their families.

/ It's clear

It's clear enough what the individual striker loses. Even allowing for union benefits and income tax refunds - and supplementary benefit for the families of strikers - a striker can lose over half his income.

And the other side of the picture is that it can take him a very long time to get this back in higher pay. A strike lasting a few weeks, even if it results in a pay settlement a few percentage points more than in it would otherwise have been, could cost a worker more than he would recoup in extra earnings after several years.

So the new realism about strikes is good for everybody; good for the employer, who is less likely to have to lay workers off, and good for the employee, who is less likely to lose income.

And in a wider sense the whole country benefits. Who now believes that anyone did well out of the famous "winter of discontent" which started two years ago? A lot of people were inconvenienced; some suffered considerable hardship; and everyone felt the result in higher inflation, less ability to compete internationally, and ultimately less employment.

The nation certainly suffers. Output and markets may be lost permanently. There will be more unemployment - whether it directly affects the strikers or not. The way forward is through management and unions finding a common sense of purpose: that's how the West Germans and Japanese have achieved their steadily rising living standards since their recovery from the war.

Employees should consider very carefully this winter whether they are going to try to use industrial muscle to force firms to pay more than they can afford to without impairing their competitiveness - with inevitably disastrous results, or whether they will accept the reality of the situation and start to pull with management to get their firms on the way to renewed growth and prosperity.

The principal consequence of irresponsible pay bargaining backed by industrial action this winter would be higher unemployment. The British are renowned for commonsense; commonsense says we should not choose that path.

MR. INGHAM

Info + Publicity

cc: (without enclosure), to
Messrs. Whitmore *WJ MW*
Hoskyns *IX*

We discussed yesterday my minute of 26 September, and the enclosed note on changing attitudes in the longer term.

We agreed that:-

- (i) I should discuss with Mr. Hoskyns the way in which part of my work might be integrated with the work of the Policy Unit, with a view to ensuring that appropriate advice on the effect of public attitudes of policy decisions is regularly fed into the Ministers chiefly concerned. I will let you have, when you return from leave, detailed proposals for how this might be put into effect.
- (ii) As concerns Mr. Mayes, it is not for us to decide what he is to do since there is no way that CSD/No. 10 can pay for him. We can, however, decide how to make the best use of his time if, as may be the case, the Government Information Service find it convenient to leave him where he is, and presumably on the Treasury's books. Accordingly I attach a job description, which I have agreed over the telephone with him, and which if you agree I will send to him for use with those concerned to decide on what should be his future.
- (iii) I will pursue the issues summarised in paragraph 14 of my paper with the Policy Unit and the others concerned during your absence on leave.

JOHN VEREKER

1 October 1980



Evon PD.

10 DOWNING STREET

From the Principal Private Secretary

29 September 1980

cc T. Vereker

Dear John,

PRESENTATION OF THE GOVERNMENT'S ECONOMIC STRATEGY

You will have seen that the Paymaster General has written to all his Ministerial colleagues asking them to carry out a sustained campaign with a view to moderating pay claims in the current pay round; and saying that preparation of the material for his new series of speaking notes for Ministers will be coordinated here in No. 10.

The Prime Minister wishes Ministers to explain in their public speeches the realities of pay bargaining in today's circumstances and in particular to bring home the link between unemployment and pay claims not matched by increased productivity. The Paymaster General will issue speaking notes and John Vereker, an Assistant Secretary who has recently joined us here at No. 10, will have responsibility at official level for coordinating the preparation and use of these notes and similar material on the presentation of the Government's economic strategy in future. As part of his work, John Vereker will be in close touch with you to monitor the use of the speaking notes and to see that they are getting the necessary attention from the media. Since we are not equipped to ring round all Ministers' Private Offices each week to establish what is being done, it would be helpful if you and other Private Secretaries would ensure that all prepared texts or press handouts and all media reports of speeches are sent to John Vereker as soon as possible after delivery.

I am sending copies of this letter to the Private Secretaries to all other members of the Cabinet, to the Minister of Transport and to the Chief Whip. I should be grateful if you and they would show this letter to the Private Secretaries to Junior Ministers in your Department. I am also sending a copy of this letter to David Wright (Cabinet Office).

Yours mv,

Miss Whitman.

J.F. Halliday, Esq.,
Home Office.

1.

PRIME MINISTER

Presentation of the Government's Economic Strategy

I have discussed with Mr. Vereker your comments below on the draft letter for me to send to other Private Secretaries.

In its original form the draft gave prominence to the need for an effort to get down the level of pay settlements in the next few months because that is the theme of the speaking notes which the Paymaster General will be circulating to his colleagues. But tackling the level of pay claims is not the whole story, and it is planned that there should be further work which will deal primarily with the need to bring about a change in attitudes on the part of management and workforces in order to improve the supply side of the economy.

We have revised the draft letter to Private Secretaries in the light of your comments, and the new version is attached below. Are you content with it?

Yes
ms

pm.

26 September 1980

DRAFT LETTER FROM MR. WHITMORE TO J.F. HALLIDAY, HOME OFFICE

Presentation of the Government's Economic Strategy

You will have seen that the Paymaster General has written to all his Ministerial colleagues asking them to carry out a sustained campaign with a view to moderating pay claims in the current pay round; and saying that preparation of the material for his new series of speaking notes for Ministers will be coordinated here in No. 10.

The Prime Minister wishes Ministers to explain in their public speeches the realities of pay bargaining in today's circumstances and in particular to bring home the link between pay claims not matched by increased productivity and unemployment. The Paymaster General will issue speaking notes and John Vereker, an Assistant Secretary who has recently joined us here at No. 10, will have responsibility at official level for coordinating the preparation and use of these notes and similar material on the presentation of the Government's economic strategy in future. As part of his work, John Vereker will be in close touch with you to monitor the use of the speaking notes and to see that they are getting the necessary attention from the media. Since we are not equipped to ring round all Ministers' Private Offices each week to establish what is being done, it would be helpful if you and other Private Secretaries would ensure that all prepared texts or press handouts and all media reports of speeches are sent to John Vereker as soon as possible after delivery.

/ I am sending

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A INGHAM

cc Mr. Whitmore
Mr. Hoskyns

MW.
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Changing Attitudes: The Longer Term

I have been reflecting on what we ought to be doing, other than encouraging Ministers to use our speaking notes, to bring about the changes in public, and more specifically worker, attitudes in order to help the achievement of the objectives of the economic strategy. A framework for this effort, including an indication of it is already done, and is contained in the attached short paper. It draws on my discussions and meetings with the Policy Unit, the CPRS, the Treasury, the Department of Employment, the CBI and Conservative Central Office. It does not yet reflect meetings with NEDO: Mr. Duguid and I are going to see the Director General on 9 October.

2. The policy issues are summarised in the last paragraph of the paper. The paper was drafted before I saw the Prime Minister's comments on our pay exercise; her views make it all the more important that we address these issues quickly, and seek her consent to our conclusions. I therefore suggest that we^{*} try and arrange a short discussion before you go on leave. ** gov. me, Policy Unit, ? CPRS + D/Em*

3. There is one other matter, not appropriate to the main paper, which we must also discuss before you go. That is what No. 10's role should be, and how we organise ourselves. There are two issues:

(i) Presentation and policy making overlap. The Policy Unit is already closely involved in this subject. In looking at the longer term No. 10's role is more one of feeding in policy to existing machinery (D/Em and MISC 14) than of presenting policy directly. Ought I, in this area, to work as part of the Policy Unit?

(ii) What will be the role of Mr. Mayes? I have discussed this with him and know that he is under considerable pressure from his present paymasters (DoT) to define his role, and, if it be in the area of the economic strategy, to persuade someone else to pay for him. He has written two useful minutes containing specific suggestions for the campaign (Flags A and B).

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Should his position in the Treasury be consolidated so that he can pursue some of these ideas as part of our team, which would also enable us to call on him to help with monitoring (which is going to require a lot of chasing round Information Departments and Private Offices)?

J.M.M. Vereker

26 September 1980

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CHANGING ATTITUDES: THE LONGER TERM

Role in the Economic Strategy

1. The Government's economic strategy has two (related) aims: a permanent reduction in the rate of inflation, and the creation of a climate in which production will flourish. The first of these is to be achieved through establishing conditions in which pay rises will be restrained, in the private sector, through monetary policy, and in the public sector through strict cash limits, EFLs and RSGs. The second is to be achieved through practical measures to improve the supply side of the economy, including the encouragement of better productivity, and more enterprise and individual effort.

2. The achievement of either of these objectives on a lasting basis requires changes in attitudes. In the short term, a reduction in the rate of inflation attributable to wage-push may be achieved by acceptance on the part of wage bargainers that the general economic climate - and notably unemployment and the constraints on public spending - makes pay settlements that keep pace with past inflation beyond reach. But unless that acceptance is based on a permanent change in attitude - involving the understanding and acceptance of the relationship between pay and productivity - the ending of the recession, a resumption of growth in output, and the re-emergence of a market for labour will result in a pay explosion similar to those which have followed past incomes policies. That could occur as soon as the 1981/82 pay round; and it would probably be most marked in the sectors which failed by the largest margin to keep pace with inflation during this pay round.

/ The second

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3. The second objective, improving the supply side of the economy, also requires changes of attitude; but here it is unlikely that anything at all can be achieved in the short term. Attitudes which will contribute to productivity include: a common sense of purpose between management and worker; a sense of responsibility for the success of the enterprise; a sense of the failure of past performance; a sense of pride in achievement; and a sense of having to work hard to survive in a competitive world. Engendering such attitudes is a long term process; but without them, the second plank of the economic strategy will not be achieved. This note looks at ways of changing attitudes so as to help achieve each of the objectives.

Influencing Pay Behaviour: Long Term Measures

(i) The short term adds up to the long term

4. For many years Governments have endeavoured to restrain pay rises by a series of short term measures, These have seldom applied for more than one pay round, and the typical pattern has been one of tight restraint, whether voluntary or otherwise, followed by a looser regime. These short term measures have therefore accumulated in an unplanned manner into a long term policy of holding down pay increases by means exogenous to the motivation of pay bargainers: by imposing, or attempting to impose, the Government's will.

5. Both imposed measures - cash limits in the public sector and monetary squeeze in the private sector, executed on a four year basis - and measures which will lead pay bargainers to behave consistently with the national interest, are necessary

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for the economic strategy to succeed. Willing acceptance of the short term measures would provide the best basis for longer term success. The first step in the process of fostering permanent changes in attitude is therefore the careful and repeated explaining of the strategy and its consequences.

6. The measures already in hand focus on Ministerial speeches and the consequent media attention. A series of speaking notes for Ministers on the economic strategy, slanted towards pay behaviour but by no means confined to it, have been established; and arrangements are being put into effect for monitoring the effect.

7. What other short term measures might be desirable?

(a) We could use the written word more. When critical articles appear in the media (such as the two in the Evening Standard on 16 and 18 September) we could ask for space to reply. Provided the ~~the~~ response is selective, so as not to elevate lightweight criticism to the status of an equal partner in the debate, and immediate, it would be effective.

(b) We could pay for a media campaign. Governments in the past have used newspaper and television advertisements, posters and leaflets to put across a message, often effectively ("watch out, there's a thief about"; "save it"). But it is expensive and, in the controversial area of economic strategy, open to the

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/criticism of

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criticism of being in the Governmental, rather than the national, interest.

(ii) Using the short term to explain the long term benefits

8. A permanent change in attitudes is more likely to be achieved if those concerned understand that the long term strategy makes sense and that the Government is absolutely determined to stick to it. So the measures already used, notably Ministerial speeches, should be focussed on the period up to the end of the MTFs, explaining how all will benefit if it is followed.

(iii) Using intermediaries

9. Using non-Government intermediaries to help change attitudes has several advantages: they may because of their independence carry more authority; they may be able to reach specific targets more effectively; and they may be almost cost free. At present, little is done specifically on pay; and its effectiveness is doubtful. The principal effort seems to have been undertaken by the CBI, through the CBI Business Briefs, which clearly show the role of pay in declining competitiveness. 14,000 were distributed. But the CBI themselves think that managers often do not pass on the message adequately to wage bargainers, and that their influence on this pay round will be slight. They have no plans for further effort in this area: they are waiting for Beckett.

/ What other

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10. What other intermediaries might be used, specifically on pay?

(a) The Government could talk to the union leadership. But this channel is closed as long as the TUC insist on their right to discuss the whole economic strategy.

(b) The CPRS have suggested the establishment of a panel of respected independent figures, who would be encouraged to appear in the media making helpful statements. It might be possible to organise this: but it might backfire.

(iv) Actions are Louder than Words

11. The best form of explanation is often by example. If people see the clear operation of cause and effect, they may rapidly lower their expectations. Unemployment is already having that effect; and were it not for the Government's repeated assertions at the time of the steel strike that the cash limit would not be increased, the announcement of the extra support for steel would have been a good opportunity to drive home the consequences of unrealistic pay bargaining. We should see that in as many cases as possible the consequences for both the public and individuals involved of either industrial action or excessive wage settlements is clearly spelled out.

Influencing Attitudes to Productivity and Competitiveness

12. There is very little the Government can do directly to foster the attitudes defined in paragraph 2 above. In the specific field of employee involvement, which is an important but not the only element in changing attitudes, work is being taken forward in MISC 14. The Secretary of State for Employment will shortly be putting forward proposals for encouraging wider employee involvement on a voluntary

/basis. Again,

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basis. Again, the main effort will be for the Government to encourage, or to continue to encourage, suitable intermediaries:

(a) The NEDC and related bodies. The Secretary of State for Employment intends to explore the possibility of a discussion on employee involvement, with a view to a tripartite commitment to voluntary action. Beyond that there are some questions that could be raised about NEDC's effectiveness in changing attitudes:

- (i) Do they tend to soft pedal pay realities as an element in profitability and competitiveness?
- (ii) Could they not make more use of comparisons with our competitors rather than with past UK history?
- (iii) What happens to the material they put out and how is its use monitored?

(b) The CBI.

Both the CBI's Business Briefs and their work on employee involvement reflect their understanding of the central role played by attitudes in determining productivity and the ability to compete. But again the effectiveness of these means appears to be limited by the willingness of the audience to hear the message. There may be scope for encouraging the new Director General to take an initiative to start a long-term campaign in this area.

(c) The British Institute of Management

The BIM, spurred on by the Incorporated Society of British Advertisers (ISBA) has shown signs of wanting to take an initiative to encourage higher productivity and more effective marketing. We in No. 10 are continuing discussions with them, with a view to a possible invitation to the Prime Minister to address a suitable occasion.

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There are other organisations of less importance, such as the Business Education Campaign, who should be encouraged and who might cumulatively prove effective.

13. But action will again speak louder than words. Improving the operation of the labour market and finding a positive role for the unions, on which the Policy Unit is working, would create a climate in which helpful attitudes are more likely to grow.

Summary of Issues

14. The issues which need to be addressed are:

- (i) Should we arrange for more written articles? (Paragraph 7(a))
- (ii) Should we pay for a media campaign? (Paragraph 7(b))
- (iii) Can the Government talk to the union leadership? (Paragraph 10(a))
- (iv) Should we establish a panel of independent figures? (Paragraph 10(b))
- (v) Can we disseminate NEDO's work more widely? (Paragraph 12(a))
- (vi) Should we ask the CBI to take an initiative? (Paragraph 12(b))
- (vii) Should we encourage other intermediaries, by involving the PM? (Paragraph 12(c))

Prime Minister's Office
26 September 1980.

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MORE PAY MEANS FEWER JOBS

Prime Minister

Quite a good note.



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26/9

OBJECTIVE

The object of this note is to provide material for Ministers to use in their speeches, broadcasts or writing over the new few weeks, to counter the charge that the Government is creating unnecessary unemployment and persuade those who are employed that their jobs, or the jobs of others, can be put at risk by unrealistic pay claims. It is addressed to all employees and especially those in industries such as the public sector monopolies, with strong bargaining power.

PRESENTATION

The Government is deeply concerned about the high level of unemployment. We will do everything in our power to help the hardest hit, particularly young people looking for their first job. The Youth Opportunities Programme has already been stepped up by a quarter.

In the end only real jobs - not temporary ones provided by the Government, with borrowed money - can lead us back to prosperity. It is these real jobs that our policy aims to provide.

Unemployment is bound to remain a problem until we get inflation permanently under control. It's the price we have to pay for having got ourselves into this mess by failing to relate pay settlements to productivity in the past, while Governments failed to pursue responsible policies on money supply and on public borrowing and spending.

Of course, not all of today's unemployment is the result of domestic factors. Production throughout the world has been slowing down, and people have been spending less, so we are now going through one of a series of world recessions which comes every five years or so.

This recession - as indeed the previous recession - can be largely traced to the enormous rises in the price of oil that took place in the 1970's, which themselves contributed significantly to world-wide inflation.

Because of our recent performance, however, Britain went into this recession in poor shape; unemployment was already high - well over 1.3m this time last year - and inflation was on an upward trend.

The Government is now attacking the cause of inflation directly by refusing to print more and more money which buys less and less. And, so far as its own employees are concerned, the Government will impose strict cash limits. A lower rate of inflation will lay the foundation for a period of sustained growth, with more jobs.

Those who are already employed must play their part too. It means being realistic about wage claims. And it means understanding the consequences - for themselves, for fellow workers and for all of us - of demanding more than their productivity justifies: of getting something for nothing.

If wage settlements are more than we can afford, even more jobs will be lost.

Higher wages without higher out-put mean lower profits for companies. In today's competitive world, most of them can't just pass on the cost by raising their own prices. Lower profits mean less money set aside for new investment and new jobs. And in some cases, it means firms going out of business altogether.

Of course there are some workers who think that their own jobs are not the ones at risk if they ask for unrealistic settlements. Their extra pay is passed right on in higher prices, often to other industries. But that's just passing on unemployment to someone else, because those industries have to reduce their workforce to remain viable or postpone investment plans and hence new permanent job creation.

Sooner or later we all pay for excessive wage settlements. Consuming too much eats away at the resources we ought to be putting into making the economy strong again.

More and more people understand this now. Public opinion polls show an encouragingly realistic attitude on the part of union members to what they should expect this time round. Don't listen to anyone who tells you that you're entitled to more for nothing: the facts of economic life apply to you too.

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

19th September 1980

TO ALL MINISTERS

Dear Colleague,

THE PAY ROUND

Prime Minister
You will wish to
be aware of these
papers.
TL 2615

It is vital that the public as a whole, and particularly unionised labour, understand the consequences of unrealistic pay claims this autumn. We have deliberately set our faces against the setting of a particular norm or range. But that makes it all the more important to explain that the economic environment the Government has created will lead to steady growth and more jobs if wage settlements are moderate now, but to more inflation and more unemployment if they are not.

So we need a sustained campaign by all Ministers this autumn. To get this off the ground I shall be issuing a new series of speaking notes for Ministers on the presentation of our economic strategy, with special emphasis on pay. The Prime Minister's Office, in close consultation with the Treasury, will be co-ordinating the preparation of the necessary material, and have been asked to monitor closely the way it is used and how it is received. This effort has the strong personal backing of the Prime Minister and of the Chancellor, and I am sure you will all take every opportunity to put the message across, and to ensure it reaches individual groups of public sector employees before they get into negotiations.

As far as the pay round is concerned, our strategy should be to use different weapons as the autumn unfolds. We shall need throughout to reiterate the Government's determination not to change course by printing money to finance pay claims; but I can already see three distinct stages in the campaign:

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- (i) In the early autumn, that is, for the next two months or so, we need to base our explanations on the fear of further unemployment; the beginnings of evidence of private sector moderation, which has - significantly - been shown in industries especially prone to competition; the risk of losing pay through long drawn out strikes; and the evidence that inflation is easing.
- (ii) In the late autumn, as the public sector monopolies begin to loom larger we should deploy the moral argument (why should the weaker pay?); explain that relativities and traditional links between bargaining groups are no longer valid and that any individual high settlements are not to be regarded as a precedent for others to follow: and point to cash limits as evidence of the Government's determination in the sectors for which it is responsible.
- U (iii) By the New Year, we should hopefully be in a position to build up the momentum of moderation, by quoting and re quoting the figures for all responsible settlements reached, showing that the RPI is dropping significantly, and perhaps even finding some evidence that output and the labour market are beginning to recover.

I should of course welcome any ideas that colleagues may have for this campaign, and their reactions to the usefulness or otherwise of the material we put out. I cannot over-emphasise the importance of every Minister's personal responsibility for contributing to this effort.

Yours,

Angus Maude

Angus Maude

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GOOD NEWS ON PRICES

Objective

The object of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing this week-end, designed to reduce public expectations as to the likely pay offers in the current (1980/81) pay round. It is addressed to all employees, and where Ministers have some direct or indirect responsibility for public sector employees they should try to find occasions to speak to them.

Presentation

Prices are going to rise much more slowly during this pay round than during the last one. That isn't just a forecast by the Treasury computer: there is convincing evidence for all to see.

The prices you pay in the shops rose by under 13% over the year ending in July, and there's never been a better time for picking up bargains.

Better still, there are indications that the price of manufactured goods will not be rising very much over the next few months. According to CBI figures, fewer firms are expecting to raise prices than at any time in the last ten years.

So, looking forward, the prices picture is encouraging. There's every reason to suppose that the rate of inflation is going to go on coming down; and the Government is going to make sure it doesn't go back up again, by not printing money.

Earnings as a whole have risen considerably more than prices in the past year. This is a statistical fact, whatever our own personal impressions may have been. But no one should now expect pay rises to go on keeping pace even with the price increases likely in the near future. We have to have a temporary fall in our real living standards if we're to get the economy straight, stop the rise in unemployment and create new jobs. But even so, because the price increases won't be so big, our pay won't be lagging far behind.

A lot of people have shown they understand this already. The Lucas workers accepted a reported pay rise of 10%; and Vauxhall workers at Luton and Dunstable overturned their union's recommendation and have voted by a very large majority to accept 8%. Companies can't afford to pay more than this during a severe industrial recession.

Government can't afford it either. Our determination to set a realistic example was shown by the decision to make drastic cuts in the increases recommended for Ministers, MP's, Senior Civil Servants and Servicemen and Leaders of nationalised industries - and that was all part of the last pay round.

This time round, as the Chancellor said in Manchester on 10th September, there's going to be significantly less cash available for increase in the cost of public servants' pay than there was last year. So everybody's in the same boat.

Paymaster General's Office,
Privy Council Office,
68, Whitehall,
London SW1A 2AT

19 September 1980

THE STRATEGY REAFFIRMED

Objective

The object of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing over the next few weeks, which will restate the case for the economic strategy the Government is pursuing and leave no doubt that it will be maintained. It is addressed to opinion formers, but is also suitable for wider audiences.

Presentation

The Government is giving top priority in its economic strategy to getting inflation down once and for all. We all know the harmful effects of inflation: it eats into our savings and our earnings, it makes planning our finances impossible, and it undermines sustained growth and employment.

Governments of both parties have been trying to contain inflation for at least twenty years. Sometimes, especially when they have used controls of one kind or another - such as incomes policies - they have had some short run success; but inflation has always crept - or leapt - back up again.

To get rid of excessive inflation permanently requires a new approach. Instead of attacking the effect - higher prices and wages - we have to attack the cause: that is, the rate at which the amount of money in the system has been growing.

There's nothing sinister about a responsible monetary policy. It simply means not taking the easy way out by printing money to pay for higher wages that have not been earned by higher output.

Inflation has already peaked. Success in our policy of reducing the growth in the supply of money will ensure a greater and more permanent reduction.

/ To achieve our monetary

To achieve our monetary objectives without excessive interest rates we have to rein back public spending. The Government can't find all the resources it needs by raising taxes, and if it borrows too much, interest rates will not come down. So we're being very careful how we spend your money.

Our economic strategy is therefore very simple: we're not going to throw away the chance of getting inflation under control by printing money and increasing public spending.

Have you noticed that, although there's a lot of talk in the press about the economic strategy, no one has suggested a real alternative?

Some people say we should abandon our efforts to contain the money supply, so as to create more jobs. Well, a responsible monetary policy may mean some extra unemployment in the transitional period, but the more quickly people adjust their expectations, the shorter this period will be. Easy money is not a real alternative: inflation would go back up and the new jobs would be a long time coming.

Our policy offers the only chance of getting into a lasting pattern of steady growth with stable prices - which would mean a healthier economy, more jobs, and a new prosperity.

PAYMASTER GENERAL'S OFFICE
PRIVY COUNCIL OFFICE
68 WHITEHALL
LONDON SW1A 2AT

19 SEPTEMBER 1980

GOOD NEWS ON PRICES

Objective

The object of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing this weekend, designed to reduce public expectations as to the likely pay offers in the current (1980/81) pay round. It is addressed to all employees, and where Ministers have some direct or indirect responsibility for public sector employees they should try to find occasions to speak to them.

Presentation

Prices are going to rise much more slowly during this pay round than during the last one. That isn't just a forecast by the Treasury computer: there is convincing evidence for all to see.

The prices you pay in the shops rose by under 13% over the year ending in July, and there's never been a better time for picking up bargains.

Better still, there are indications that the price of manufactured goods will not be rising very much over the next few months. According to CBI figures, fewer firms are expecting to raise prices than at any time in the last ten years.

So, looking forward, the prices picture is encouraging. There's every reason to suppose that the rate of inflation is going to go on coming down; and the Government is going to make sure it doesn't go back up again, by not printing money.

Earnings as a whole have risen considerably more than prices in the past year. This is a statistical fact, whatever our own personal impressions may have been. But no one should now expect pay rises to go on keeping pace even with the price increases likely in the near future. We have to have a temporary fall in our real living standards if we're to get the economy straight, stop the rise in unemployment and create new jobs. But even so, because the price increases won't be so big, our pay won't be lagging far behind.

A lot of people have shown they understand this already. The Lucas workers accepted a reported pay rise of 10%; and Vauxhall workers at Luton and Dunstable overturned their union's recommendation and have voted by a very large majority to accept 8%. Companies can't afford to pay more than this during a severe industrial recession.

Government can't afford it either. Our determination to set a realistic example was shown by the decision to make drastic cuts in the increases recommended for Ministers, MP's, Senior Civil Servants and Servicemen and Leaders of nationalised industries - and that was all part of the last pay round.

This time round, as the Chancellor said in Manchester on 10th September, there's going to be significantly less cash available for increase in the cost of public servants' pay than there was last year. So everybody's in the same boat.

Paymaster General's Office,
Privy Council Office,
68, Whitehall,
London SW1A 2AT

19 September 1980

CONFIDENTIAL

✓ MMS



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

19th September 1980

TO ALL MINISTERS

Dear Colleague,

THE PAY ROUND

It is vital that the public as a whole, and particularly unionised labour, understand the consequences of unrealistic pay claims this autumn. We have deliberately set our faces against the setting of a particular norm or range. But that makes it all the more important to explain that the economic environment the Government has created will lead to steady growth and more jobs if wage settlements are moderate now, but to more inflation and more unemployment if they are not.

So we need a sustained campaign by all Ministers this autumn. To get this off the ground I shall be issuing a new series of speaking notes for Ministers on the presentation of our economic strategy, with special emphasis on pay. The Prime Minister's Office, in close consultation with the Treasury, will be co-ordinating the preparation of the necessary material, and have been asked to monitor closely the way it is used and how it is received. This effort has the strong personal backing of the Prime Minister and of the Chancellor, and I am sure you will all take every opportunity to put the message across, and to ensure it reaches individual groups of public sector employees before they get into negotiations.

As far as the pay round is concerned, our strategy should be to use different weapons as the autumn unfolds. We shall need throughout to reiterate the Government's determination not to change course by printing money to finance pay claims; but I can already see three distinct stages in the campaign:

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/(i)

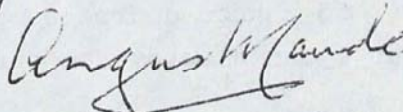
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- 2 -

- (i) In the early autumn, that is, for the next two months or so, we need to base our explanations on the fear of further unemployment; the beginnings of evidence of private sector moderation, which has - significantly - been shown in industries especially prone to competition; the risk of losing pay through long drawn out strikes; and the evidence that inflation is easing.
- (ii) In the late autumn, as the public sector monopolies begin to loom larger we should deploy the moral argument (why should the weaker pay?); explain that relativities and traditional links between bargaining groups are no longer valid and that any individual high settlements are not to be regarded as a precedent for others to follow: and point to cash limits as evidence of the Government's determination in the sectors for which it is responsible.
- (iii) By the New Year, we should hopefully be in a position to build up the momentum of moderation, by quoting and re quoting the figures for all responsible settlements reached, showing that the RPI is dropping significantly, and perhaps even finding some evidence that output and the labour market are beginning to recover.

I should of course welcome any ideas that colleagues may have for this campaign, and their reactions to the usefulness or otherwise of the material we put out. I cannot over-emphasise the importance of every Minister's personal responsibility for contributing to this effort.

Yours,



Angus Maude

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1

MR. WHITMORE

c. Mr. Ingham OR

Presentation of the Government's Economic Strategy

The Paymaster General has now agreed Mr. Ingham's submission of 17 September (copy attached for reference) containing recommendations as to how the Government's economic strategy should be presented this autumn, and on my own role in the process. A letter will issue tomorrow from the Paymaster General to all Ministers exactly as drafted - Flag A - and the first two Economic Policy Presentation Notes will go out at the same time.

The Paymaster General agrees that it would be helpful if you would also write, expressing the Prime Minister's personal interest in this exercise, to Private Secretaries to all members of the Cabinet, and explaining to them that I shall need to be in touch with them. I have discussed with the Paymaster General the text of such a letter, and I now submit a draft, which the Paymaster has agreed, for your signature.

JOHN VEREKER

18 September 1980

I am reluctant to write a campaign to this effect important though it is. Do other experts follow later. (Min. Ministers)

N.B. It is not that I want the effort to bring it down quite right, and I shall need to discuss it with Mr Vercher next week. But are you in principle content for me to write as proposed and in particular to use the sentence at X1?

can and will result under present circumstances in leading expectations. There are however other factors in the lack of staying competition.

explains of Canada and effort

But are you in principle content for me to write as proposed and in particular to use the sentence at X1?

18/9

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MR LANKESTER

10 DOWNING STREET

From the Press Secretary

PAYMASTER GENERAL

Presentation of the Government's Economic Strategy

During your absence we have been looking at the problems facing us in presenting the Government's economic strategy this autumn, and, with the arrival of Mr. Vereker, considering ways of improving the machinery generally. MIO(E) has agreed a paper setting out the problems of presenting the strategy this autumn, and making recommendations as to how we should proceed. We wish to develop a closely co-ordinated effort on the part of all Ministers to put across both the necessary general explanations of the strategy, and our week-by-week response to events in the economy, particularly as they relate to this year's pay round. Mr. Vereker would be responsible for co-ordinating this effort.

Accordingly, I submit for your consideration these papers:

- (i) The paper agreed by MIO(E) on the presentation of the economic strategy in the autumn. This paper has also been seen and agreed by the Treasury Under Secretaries responsible.
- Annex 1 (ii) A fortnightly diary for the period 13-26 September, illustrating the way in which we propose to correlate the principal economic events with an appropriate Ministerial response. I do not believe this will duplicate existing work or cause further work outside No. 10.
- Annex 2 (iii) A draft letter for you to send to all your Ministerial colleagues, explaining the need for a sustained campaign on the presentation of the strategy, with special emphasis on pay; and asking for your colleagues' help in contributing to the effort.

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- 2 -

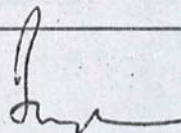
Annex 3 (iv) A draft letter which, if you agree, I would propose that Mr. Whitmore should send to Private Secretaries to Cabinet Ministers, stressing the Prime Minister's personal interest, and explaining Mr. Vereker's role.

Annex 4 (v) An example for your consideration of one of the new PMG notes in the economic policy presentation series. This one relates particularly to prices; we would propose also to issue at the beginning of this effort notes reaffirming the overall strategy, examining the relationship between wage claims and unemployment, and on the damaging nature of inflation.

Mr. Vereker and I would, of course, be happy to discuss this with you at your convenience. **

I am sending copies of this minute to John Wiggins (H.M. Treasury), Alistair Pirie (Chief Secretary's Office) and Stephen Locke (Financial Secretary's Office).

** I shall be away over the next seven days but will be in during the first part of the week beginning 29 September before I go on a short holiday. Meanwhile the work is going ahead as a matter of urgency.



B. INGHAM

16 September 1980

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PRESENTATION OF THE GOVERNMENT'S ECONOMIC STRATEGY IN THE AUTUMN

This paper looks at the message that has to be put across this autumn, against the background of how the economic strategy is progressing; and makes recommendations as to how we might proceed.

The Message, in the light of the Economy

2. For the first time, the economic strategy is under concerted attack in the media. As the CBI and leading industrialists publicly join the effort to persuade the Government to change its policies, albeit without presenting a coherent alternative, there is a danger that the Government will be thrown on the defensive. There are indeed substantial presentational problems:

- (i) Control of the money supply has been built up as the Government's principal weapon, but neither the last two (July and August) sets of figures nor the figures which are likely to be issued later in the autumn will provide evidence that money supply is coming down to the target range.
- (ii) Inflation, as perceived by the public in the shape of the RPI, will not fall sufficiently to have an effect on pay expectations for the foreseeable future.
- (iii) The recession and the economic strategy are beginning to bite more sharply on the private sector, due to high interest rates and the strong pound, than on the public sector, where wages and prices have appeared to be less restrained. There is a particular problem of the announcements due during the autumn of substantial price increases for coal, gas, posts, telephones and railways. The announcement of cash limits in the second half of November will provide a defence in the case of the Civil Service and local authorities, but far less in the case of the nationalised industries.

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- 2 -

(iv) There will be some other sharp increases which will make it difficult to sell wage moderation, notably rates and rents.

(v) The unemployment figures will continue to worsen.

3. Against this background, there are a number of themes that need to be put across. They are not new:-

(i) Although many of the remedies do lie in our own hands, it is quite legitimate to associate many of our current and prospective problems with the oil price rises of the 1970s and with the general world recession.

(ii) Over and above this, a considerable amount of restructuring is taking place in British industry; there is bound to be a price for that, but we will emerge more efficient and more competitive.

(iii) Sticking to the strategy offers the best hope of steady growth, and therefore of more secure jobs.

(iv) If wage settlements are more than we can afford [we can no longer say "more than the planned growth of money supply" since it is growing above the 7-11% target] even more jobs will be lost. That can happen in a number of ways:

- Companies go out of business because their higher costs make them uncompetitive;

- Private sector investment falls because profits are lower;

- In monopoly industries, higher costs are passed on to the consumer, forcing other industries to become uncompetitive, and lowering the overall level of demand.

(v) Long-drawn-out strikes mean substantial costs to individual strikers, as well as to the employer (BSC example).

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- 3 -

- (vi) Of course some public sector workers are in a strong position in wage bargaining; but they must face the moral issue: how do they justify their claims, and why should the weaker groups have to pay for them?
- (vii) The Government is taking a responsible attitude to both pay and public spending in that part of the public sector which it directly controls. The cash limits will be significantly lower than last year's.
- (viii) Prices are only part of the picture: producing goods that the consumer demands and marketing them effectively is just as important.
- (ix) There is quite a lot of good news about, and it deserves more notice:
- A number of reasonably low pay settlements.
 - Exports are holding up well.
 - The prospects for inflation are much improved; wholesale input prices are particularly encouraging.
 - Polls show union members, though not leaders, are realistic about wages having to rise by less than the cost of living.
- (x) It is wrong to portray the Government as unnecessarily hard faced when confronted with the social consequences of the economic strategy. Social policies are playing an important part in cushioning the sharp corners of change.
- (xi) Inflation is evil. Getting it out of the system permanently is a centrepiece of the strategy.
-

4. There will therefore need to be a careful matching of economic events with opportunities to present the Government's case, and an equally careful preparation of suitable material. The material has to be available quickly, as far as possible before each event, so that Ministers can speak without delay. And there has to be a regular supply of new material, not necessarily related to specific events, on the overall strategy.

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/ Recommendations

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Recommendations

5. We recommend:-

- (i) That our overall strategy be to overcome the major presentational difficulties outlined in paragraph 2 above on the basis of the themes outlined in paragraph 3 above; while at the same time being alert for new themes to deploy.
- (ii) That a special diary be prepared for events relating to the presentation of the economic strategy. It should cover the major statistical announcements; suitable speeches by Ministers; pay offer and settlement dates; and publication dates of some of the Economic Reviews, notably the Bank of England and the NIESR. It would be prepared in No. 10 on the basis of contributions by Departments and by extracting information from the diary already prepared for MIO, and like that one it would cover the forthcoming fortnight. It would be rolled forward weekly and would be brought up to date at the regular Monday meeting of MIO(E).
- (iii) That on the basis of this diary a tactical response to day-to-day events be co-ordinated in No. 10. The regular series of PMG notes, designed as weekend speaking notes for Ministers, would be reinforced by a special and separately identifiable series on economic presentation. Such a series would aim:
 - (a) To respond to major short-term events;
 - (b) to relate to the progress of pay settlements, both public and private sector;
 - (c) to provide continuing material to ensure that the medium-term financial strategy is widely understood; this would reflect the overall progress of the economy and any new thinking on the part of the Prime Minister or the Chancellor; and
 - (d) to pick up and counter in a positive way critical arguments as they arise.

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/ These notes

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These notes would, of course, be issued by the PMG's Office, but the co-ordination of their preparation would be the responsibility of No. 10, on the basis of material provided by Departments. They would have to be circulated in time for Ministers' boxes on Thursday evenings.

- (iv) Close attention be paid to monitoring the use to which the material is put. No. 10 reporting to the PMG would be responsible for checking that opportunities were being taken, and that suitable measures were adopted to ensure media (including radio and TV) coverage. Their role in this would be explained to Private Secretaries by the Prime Minister's Private Secretary.

Prime Minister's Office

17 September 1980

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	Principal Economic Statistics & Reviews	Pay Offers & Settlements	Appropriate Ministerial Speeches	Parliament
Saturday 13 and Sunday 14 November		Fire Service (36,500): Employers meet	FCO: Sir I Gilmour, M/S, Harrow E. DOI: Sir K. Joseph, S/S, NW Area CP Conference, Southport	Recess
Monday 15 September	Balance of Payments (August) Retail Sales (August) Industrial Production (July)	OS Industrials (154,000): Meeting of JNC LA Chief Officers (1900): meeting of JNC	DOI: Sir K. Joseph, S/S, visits SW England FCO: Mr Ridley, M/S, Tewkesbury Rotary Club WO: Mr Edwards, S/S, opens Nestle's depot, Chepstow DM: Mr Prior, S/S, opens British Enterprise Exhibition, Piccadilly	Recess
Tuesday 16 September			Try: Sir G Howe, Kingston Cons. Ass	Recess
Wednesday 17 September	Cyclical Indicators (August) Average Earnings (July) Basic Wage Rates (August) Money Stock (2nd Quarter) CGBR (2n Quarter) UK Banking Sector (2nd Quarter)		DM: Mr Prior, S/S, ESA Conference, Reading HO: Mr Whitelaw, H/S, James Stuart Lecture, Edinburgh Try: Mr Biffen, C/S, Engineering Employers Federation DOE: Mr Fox, PUSS, 77 Club, York	
Thursday 18 September	Money Stock (mid-August)	Shell Oil tanker drivers (5000): Negotiating meeting	SO: Mr. Fletcher, PUSS, Scottish Council Conference for small firms	Recess
Friday 19 September	DOI British Business Magazine: wholesale prices	Probation Service (5000): Employers meet Electricity Council meet EPEA (1700)	DM: Mr Prior, S/S, St. Albans, Welwyn and Hatfield Try: Mr Biffen, C/S, Thirsk & Malton CPC DHSS: Mr Jenkin, S/S, Durham Social Services Conference FCO: Mr Hurd, M/S, SW Cons. Ass. DOI: Lord Trenchard, M/S, Cons. speaking tour in Wessex	Recess

Saturday 20 and Sunday 21 September							Recess
Monday 22 September	GDP (Second Quarter)					DM: Mr Prior, S/S, Ilford Cons. Ass Try: Mr Biffen, C/S, Industry & Parliament Trust Seminar DOI: Mr Marshall, PUSS, Business Competition, Newcastle	Recess
Tuesday 23 September	Unemployment (Sept) Unfilled Vacancies (Sept)					DOE: Mr Heseltine, S/S, Leeds Business Venture DOI: Mr Joseph, S/S, Merseyside Chamber of Commerce MOD: Lord Strathcona, M/S, Stoneleigh & Iwell YCS DES: Baroness Young, M/S, Guildford Grammar School	Recess
Wednesday 24 Sept.						CSD: Lord Soames, L/P, Lloyds DM: Mr Prior, S/S, Industrial Society Conference DOI: Sir K Joseph, S/S, opens BL test track, Preston DOT: Mrs Oppenheim, M/S, Worshipful Company of Bakers DOE: Mr Fox, PUSS, Public Meeting, Bingley MAFF: Mr Buchanan Smith, M/S, Cons. Ass. Fleetwood	Recess
Thursday 25 Sept.	Employment in Production (July) Overtime & shorttime in Manufacturing (July) Industrial Disputes (August)					CSD: Lord Soames, L/P, Young Conservatives Conference, London HO: Mr Brittan, M/S, Whitby Ladies Cons. Ass. DOE: Mr Fox, PUSS, Whitby Ladies Cons. Ass.	Recess

Friday 26 September

DES: Mr Carlisle, S/S,
N. Hereford Cons Ass
DOI: Sir K Joseph, S/S, opens
SW Farmer Ltd, Leeds
Try: Mr. Biffen, C/S, Oswestry
Cons. Women
DOT: Mrs Oppenheim, M/S, Hythe YCS
DOE: Mr Fox, PUSS, West Kirby Lunch
Club
DM: Mr Prior, S/S, Cambridge College
of Arts & Technology
DM: Mr Lester, PUSS, Cambridge Small
Business Bureau
DES: Baroness Young, M/S, East Surrey
CPC
HO: Mr Whitelaw, S/S, Northern Area
Tour

Recess

DRAFT LETTER FROM THE PAYMASTER GENERAL TO ALL MINISTERSTHE PAY ROUND

It is vital that the public as a whole, and particularly unionised labour, understand the consequences of unrealistic pay claims this autumn. We have deliberately set our faces against the setting of a particular norm or range. But that makes it all the more important to explain that the economic environment the Government has created will lead to steady growth and more jobs if wage settlements are moderate now, but to more inflation and more unemployment if they are not.

So we need a sustained campaign by all Ministers this autumn. To get this off the ground I shall be issuing a new series of speaking notes for Ministers on the presentation of our economic strategy, with special emphasis on pay. The Prime Minister's Office, in close consultation with the Treasury, will be co-ordinating the preparation of the necessary material, and have been asked to monitor closely the way it is used and how it is received. This effort has the strong personal backing of the Prime Minister and of the Chancellor, and I am sure you will all take every opportunity to put the message across, and to ensure it reaches individual groups of public sector employees before they get into negotiations.

As far as the pay round is concerned, our strategy should be to use different weapons as the autumn unfolds. We shall need throughout to reiterate the Government's determination not to change course by printing money to finance pay claims; but I can already see three distinct stages in the campaign:

- (i) In the early autumn, that is, for the next two months or so, we need to base our explanations on the fear of further unemployment; the beginnings of evidence of private sector moderation, which has - significantly - been shown in industries especially prone to competition; the risk of losing pay through long drawn out strikes; and the evidence that inflation is easing.

/ (ii)

- (ii) In the late autumn, as the public sector monopolies begin to loom larger we should deploy the moral argument (why should the weaker pay?); explain that relativities and traditional links between bargaining groups are no longer valid and that any individual high settlements are not to be regarded as a precedent for others to follow; and point to cash limits as evidence of the Government's determination in the sectors for which it is responsible.

- (iii) By the New Year, we should hopefully be in a position to build up the momentum of moderation, by quoting and re quoting the figures for all responsible settlements reached, showing that the RPI is dropping significantly, and perhaps even finding some evidence that output and the labour market are beginning to recover.

I should of course welcome any ideas that colleagues may have for this campaign, and their reactions to the usefulness or otherwise of the material we put out. I cannot overemphasise the importance of every Minister's personal responsibility for contributing to this effort.

A.M.

DRAFT LETTER FOR MR. WHITMORE TO SEND TO THE PRIVATE SECRETARY TO THE HOME SECRETARY

Presentation of the Government's Economic Strategy

You will have seen that the Paymaster General has written to his Cabinet colleagues asking them to carry out a sustained campaign with a view to moderating pay claims in the current pay round; and saying that preparation of the material for this, in the form of a new series of speaking notes for Ministers, will be co-ordinated here in No. 10.

As some of you will already know, responsibility for this work rests in No. 10 with John Vereker, an Assistant Secretary who has recently joined us, working to Bernard Ingham. The Prime Minister wishes to see the level of expectation of settlements in the pay round brought down by a particular effort on the part of all Ministers to explain the nature of the economic strategy. John Vereker has been asked to ensure that the speaking notes on economic issues are both usable and used, and to this end he will be in close touch with you to monitor the operation and to see it is getting the necessary media attention.

I should be grateful if you and other recipients would show this letter to your colleagues working for other Ministers in your Department. I am sending copies to Private Secretaries to all members of the Cabinet, and to David Wright.

C. A. WHITMORE

GOOD NEWS ON PRICES

Objective

The objective of this note is to provide material for Ministers to use in their speeches, radio broadcasts or writing this weekend, which will reduce public expectations as to the likely pay offers in the current (1980/81) pay round. It is addressed to all employees, and where Ministers have some direct or indirect responsibility for public sector employees they should try to find occasions to speak to them.

Presentation

Prices are going to rise much more slowly during this pay round than during the last one. That isn't just a forecast by the Treasury computer: there is convincing evidence for all to see.

The prices you pay in the shops rose by only 11-12% over the year ending in July, and there's never been a better time for picking up bargains.

Better still, the prices paid by industry for the goods they used rose by less than a half of one per cent in August, the smallest monthly increase in one and a half years. That means that before long the retail prices will come down too.

Taking prices as a whole, during the last three months inflation has been running at an annual rate of about 8%; and even if we ignore the effect of cheaper seasonal food at this time of year it's still only 8½%.

So, looking forward, the prices picture is encouraging. There's every reason to suppose that the rate of inflation is going to go on coming down; and the Government is going to make sure it doesn't go back up again, by not printing easy money.

/ When it's time

When it's time to think about your next pay rise, don't look back to the way prices were moving a year ago; look forward. Prices are going to rise much more slowly now, and not just for a few months. The measures the Government has taken lay the foundation for years of stable growth - that means more prosperity and less inflation.

None of us should hope that our pay rises are going to keep pace even with the price increases we can expect from now onwards. We have to have a temporary fall in our living standards if we're to get the economy straight. But because the price increases won't be so big, our pay won't be lagging so far behind.

A lot of people have shown they understand this already. The Lucas workers accepted a pay rise of 6.8%; and Vauxhall workers have voted by a very large majority to accept 8%. Companies can't afford to pay more than this when inflation is coming down.

Government can't afford it either. Our determination to set a realistic example was shown by the decision to make drastic cuts in the increases recommended for Ministers, MPs, Senior Civil Servants and Servicemen and Leaders of nationalised industries - and that was all part of the last pay round.

This time round, as the Chancellor said in Birmingham last week, there's going to be significantly less cash available for public servants than there was last year. So everybody's in the same boat.



Tim f.i.
✓ v. 11/9
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H M Treasury
Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3016

J B Unwin
Under Secretary

11 September 1980

J Vereker Esq
10 Downing Street
LONDON SW1

17
11/9

Dear John,

PRESENTATION OF THE GOVERNMENT'S ECONOMIC STRATEGY

Many thanks for copying to me your minute of 10 September to Bernard Ingham and giving me a chance to comment on your short draft paper.

2. If I may say so, I think the thrust of the paper is absolutely right. Subject to one or two minor comments below, your analysis of the problems we now face is absolutely right and, as for future action, it seems to me that one of the most important tasks (your main task!) is to ensure that such material as is produced is in fact used and at the right time and on the right occasions.

3. Turning to the draft itself, I have the following particular comments:-

(i) Somewhere in the analysis room needs to be found for the world economic background. This must not be allowed to detract from the force of the message that many of the remedies lie in our own hands, but it is quite legitimate to associate many of our current and prospective problems with oil price increases, the general world recession etc. The Treasury can easily produce material on this.

(ii) On one or two detailed points in paragraphs 2 and 3:

(a) At 2(ii) I would not refer to a "16.5% target" in November. We have no quantified inflation target. The Budget figure (on which, of course, the November Social Security uprating is based) is simply a forecast.

(b) On 2(iii) the present plan is to announce cash limits and EFLs in the second half of November.

(c) On 2(iv) the next change in NI contributions would normally be next April and decisions on this will not be taken until later in the year.

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(d) On 3(ii) we shall need to be very careful about how we express pay desiderata in relation to money supply growth, given the recent figures. Your wording is, of course, meant to relate to the 7-11% target; but we may face arguments about, say, 15% settlements not being in excess of recorded money supply growth. We shall have to think more carefully about this, in the context of the roll-forward later in the autumn, but for the moment it might be better in this kind of draft to stick to the old formula about what happens if wage settlements are "more than we can afford".

4. Given the problems over interpreting and presenting the money supply story (pace the success this week so far) and the difficulties the Government will face each month when the unemployment figures are published, we shall need to exploit to the full the "good news" referred to in your paragraph 3(iv). It should be possible here to make a good deal of the better inflation prospect (given the recent run of figures for wholesale input prices etc) and, again, we should be able to produce some fairly full material here.
5. On the recommendations, the important thing on (ii) will be to anticipate those announcements or occasions that are likely to cause particular difficulties for the Government and to commission material well in advance. We have tried to do this in the past in the Treasury (eg in relation to RPI and unemployment announcements) but it has not always been easy to meet the ideal with so many other operational pressures. I think it will be an enormous help if you, in the context of the new arrangements, can provide the stimulus and catalyst so that such material (subject in some cases to confidentiality problems) is identified and prepared in advance so that it is available to all key ministers in good time.
6. These are quick reactions to meet your deadline. We shall clearly need at a later stage to discuss in more detail the kind of material that we here can most helpfully provide and I shall want to bring various others in on this. And all this is, of course, subject to any separate comments that Peter Dixon might have.
7. I am copying this letter to Bernard Ingham and to Peter Dixon here.

Your faithfully
Jim Unwin

J B UNWIN



10 DOWNING STREET

~~Tim.~~

Your personal
comments on this
would be welcome.
Bernard has vetoed
our bypassing the MRG's
Office altogether.

J.

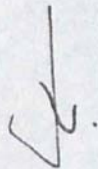
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MR. INGHAM

Presentation of the Government's Economic Strategy in
the Autumn

MIOE has agreed that a paper should be put to the Paymaster General early next week analysing the prospects for the economic presentation this autumn, and making proposals; you asked me to provide a draft, for consideration in MIOE on 15 September.

I attach a draft. The first part reflects the points made in discussion in MIOE; the second part contains my personal views as to how we need to go about taking a grip on presentation of the economic strategy. I think it is important that those chiefly concerned with that subject have a chance to comment before a paper is put to MIOE, so as well as sending copies of the draft to those concerned in No. 10, I am also copying this to Mr. Unwin and Mr. Dixon in the Treasury, who may wish to put forward their suggestions. If this is to be circulated on Friday afternoon, we shall need comments by tomorrow evening.



JOHN VEREKER

10 September 1980

Copies: Mr. R.E.S. Prescott, Paymaster General's Office
Mr. J.B. Unwin, H.M. Treasury
Mr. P.V. Dixon, H.M. Treasury
Mr. Andrew Duguid, No. 10

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DRAFT PAPER FOR THE PAYMASTER GENERAL

PRESENTATION OF THE GOVERNMENT'S ECONOMIC STRATEGY IN THE AUTUMN

This paper looks at the message that has to be put across this autumn, against the background of progress on the economic strategy; and makes recommendations as to how we might proceed.

The Message, in the light of the Economy

2. There are substantial presentational problems:
 - (i) Control of the money supply has been built up as the Government's principal interventionist weapon, but neither the last two (July and August) sets of figures nor the figures which are likely to be issued later in the autumn (and revised in October) will provide evidence that money supply is coming down to the target range.
 - (ii) Inflation, as perceived by the public in the shape of the RPI, will not fall significantly until the new year; may exceed the 16.5% target in November; and may creep back over 17%.
 - (iii) The recession and the economic strategy are beginning to bite more sharply on the private sector, due to high interest rates and the strong pound, than on the public sector, where wages and prices appear to be less restrained. There is a particular problem of the announcements due during the autumn of substantial price increases for coal, gas, posts, telephones and railways. The announcement of cash limits at the end of

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/ October will

October will provide a defence in the case of the Civil Service and local authorities, but not for nationalised industries.

(iv) There will be some other sharp increases which will make it difficult to sell wage moderation; notably rates and rents, and N.I. contributions.

(v) The unemployment figures will continue to worsen.

3. Against this background, there are a number of themes that need to be put across. They are not new:

(i) Sticking to the strategy offers the best hope of stable growth, and therefore of more jobs. The fact that there is rather more money around than we intended shows that money does not create jobs.

(ii) If wage settlements exceed the planned growth of money supply, even more jobs will be lost. That can happen in a number of ways:

- Companies go out of business because their higher costs make them uncompetitive;
- Private sector investment falls because profits are lower;
- In monopoly industries, higher costs are passed on to the consumer, forcing other industries to become uncompetitive, and lowering the overall level of demand.

(iii) Wages are only part of the picture: producing goods that the consumer demands and marketing them effectively is just as important.

(iv) There is quite a lot of good news about, and it deserves more notice:

- A number of reasonably low pay settlements.
- Exports are holding up well.
- Inflation will be coming down, though not immediately.
- Polls show union members, though not leaders, are realistic about wages having to rise by less than the cost of living.

(v) The Government is taking a responsible attitude in that part of the public sector which it directly controls.

4. There will therefore need to be a careful matching of economic events with opportunities to present the Government's case, and an equally careful preparation of suitable material.

Recommendations

5. We recommend that:

- (i) A special diary be prepared for events relating to the presentation of the economic strategy. It should cover the major statistical announcements; suitable speeches by Ministers; pay offer and settlement dates; and publication dates of some of the Economic Reviews, notably the Bank of England and the NIESR. It would be prepared in No. 10 by extracting information from the diary already prepared for MIO, and like that one it would cover the forthcoming fortnight. It would be rolled forward weekly and would be brought up to date at the regular Monday meeting of MIO(E).

/ (ii)

RESTRICTED

(ii) The regular series of PMG notes, designed as weekend speaking notes for Ministers, be reinforced by a special and separately identifiable series on economic presentation. Such a series would aim:

- (a) To respond to major short-term events, such as this week's money supply and PSBR figures;
- (b) to relate to the progress of pay settlements, both public and private sector; and
- (c) to provide continuing material on the progress of the medium-term financial strategy, reflecting the overall progress of the economy and any new thinking on the part of the Prime Minister or the Chancellor.

These notes would of course be issued by the PMG's Office, but the coordination of their preparation would be the responsibility of No. 10.

(iii) Close attention be paid to monitoring the use to which the material is put. No. 10 would be responsible for checking that opportunities were being taken, and that suitable measures were adopted to ensure media coverage. Their role in this would be explained to Private Secretaries by the Prime Minister's Private Secretary.

Prime Minister's Office

10 September 1980

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PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

1 August 1980

TO ALL MINISTERS

2
~~PRIME MINISTER~~

To see

MS

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mt

Dear Colleague,

It has been agreed that Ministers should take every opportunity during the Recess to make speeches, broadcasts, etc to lower the public's expectations in the next pay round. Ministers have already been invited to inform my office of their speaking engagements so that we can build up a co-ordinated campaign to induce greater reality into the next round of negotiations.

Meanwhile, I attach a revised speaking brief for such a campaign setting out key messages and, in the Appendix, what I call communication 'nuggets'. In addition, I would draw your attention to notes which I have circulated since 18 April on the theme of 'In the Real World'. These notes, comprising short, self-contained speeches or articles, are a useful supplement to the attached material.

Yours ever,

Angus Maude

ANGUS MAUDE

PAY - SPEAKING BRIEF

This note is intended as a brief for Ministers making speeches, giving interviews, etc, during the Recess, with the objective of lowering expectations in the next pay round. It is in no sense comparable to the last government's 'counter-inflation' campaign, because we know that inflation cannot be cured by exhortation. In a sense, it is a counter-unemployment campaign, designed to show union members and officials that excessive wage claims can only lead to a loss of jobs.

1 OBJECTIVES

There are three objectives:

- (i) To continue the very long-term process of public education in the facts of economic life, building on the progress already made.
- (ii) To show, in contrast, the complete irrelevance of most of the trade unions' posturing and propaganda.
- (iii) To establish as clearly as possible the responsibility for curing inflation; the unions' responsibility for excessive unemployment, if they win excessive wage awards; the employers' responsibility for ensuring their work force understand the position and for resisting excessive wage demands.

2 THE KEY MESSAGES

There are five very simple points we have to get across:

- (i) Britain cannot recover unless we change our ways. ||
- (ii) What we're paid depends on what we produce. ||
- (iii) We can't get rich by printing bank notes. ||
- (iv) Government can cure inflation if it has the will. ||
- (v) Government will do its job. ||

Appendix A attached gives some suggested 'nuggets' which could be used, suitably adapted, in speeches or articles.

3 MAKING THE MOST OF OPPORTUNITIES

Speeches will obviously be most effective where they can be hung on the peg of a recent event, for example the closure of a plant following militant union action.

Similarly, whenever a Minister is interviewed, he should make sure that our basic points come over:

- Nothing will deter the Government from ending inflation. Everything else depends on that - not only jobs, but pensions, hospitals, schools, the lot.
- Whether the cure is reasonably fast and painless or long drawn out and painful depends on the trade unions. We'll do our bit. They must do theirs.

If speakers can contrast these facts of life (See Appendix A) with nonsensical statements by union leaders or Labour politicians, so much the better.

The message will only get over if it is repeated over and over again. And it is only if all Ministers include the essence of this message in every speech, article, interview, even conversations with managers and workers during visits, that it will get across. There is enough variety in the 'nuggets' to be mined from Appendix A to ensure that Ministers will not always seem to be parroting the same words.

The message has to be got across if employers are to be convinced that the Government means business and will not be deflected from its task. If they are not convinced, they are less likely to stand firm in pay negotiations. The CBI who are being most helpful and co-operative, attach great importance to this.

The message can be adapted to fit into a speech to almost any audience on almost any occasion: eg there cannot be better defence, pensions, health services, schools, homes, leisure facilities or whatever, without more wealth creation and less inflation. We have to hold back now, to be sure of being able eventually to make the improvements we all want.

Finally, it is most important that the message, suitably adapted, should be included in every Ministerial reply to debates at the Party Conference. This is our best TV exposure of the year, and the best chance to hammer it home.

(NOTE: It would be helpful if Private Offices would keep the Paymaster General's Office (and the Press Secretary, No 10) informed of Ministers' speaking engagements and any changes in planned speech programmes.

Ministers may also find useful speaking notes issued by the Paymaster General in the 'In the Real World' series - notably those concerned with Government, management, trade unions and trade).

COMMUNICATION 'NUGGETS'

- 1 BRITAIN CANNOT RECOVER UNLESS WE CHANGE OUR WAYS
- 1.1 British manufacturing industry today produces no more than it did in 1974. The rest of the world has moved ahead and we're being left behind.
- 1.2 We can't just settle for no growth. How would we look after the old, the young, the sick, the poor in a dying economy? Compassion costs money.
- 1.3 As a country, we're on our own in the world. All the material things we take for granted depend on our ability to trade. We can drift along for a few years yet without things getting too rough. If we're cowardly, lazy, we can just keep putting it off, keep printing the money to buy other countries' goods and closing down our own factories. That's what happened from 1974 until this Government came to office.
- 1.4 If we keep drifting, we're just stealing from the future, stealing from our own children. Leaving them to fight our battles because we haven't got the guts to fight our own. We can either do that or start to pull ourselves up by our own bootstraps. If we start now, we can make it.
- 1.5 Yes, it will be quite hard going for the next few years, and it will take us nearer to ten years to rejoin the rest of the industrialised Western world. At the moment we're the odd man out.
- 1.6 Everything this Government has been doing, in controlling public expenditure and borrowing, in reducing direct

taxation, switching to VAT, introducing union reforms, is simply to bring us in line with other more prosperous countries. Unless we can now catch them up on productivity we'll remain the odd man out.

2 WHAT WE'RE PAID DEPENDS ON WHAT WE PRODUCE

- 2.1 Of course we all want a high wage, high investment, high employment economy, producing the wealth to support good social services. But it's no good talking about it if we're not prepared to do anything about it
- 2.2 If we produce more, in the end we'll earn more. If we produce less, in the end we'll earn less.
- 2.3 Other countries are better paid than we are. This is not because they're better at bargaining, or that their government is more generous. It's because they produce more.
- 2.4 People in other countries produce more because they do things differently. They use their time and energy, their skills, their equipment, their money, better than we do. Each person produces more, so he is paid more.
- 2.5 There is no such thing as a free lunch. There is no such thing as a good day's pay for a bad day's work. There is no such thing as a 'just demand' for more pay if there's been no more production.
- 2.6 If we don't make profits, we can forget about higher living standards. Profits are simply savings. You save for a new car. A company saves for new equipment. If its employees don't have the latest and best equipment, then they can't produce enough.
- 2.7 Unions cannot make their members rich by downing tools and demanding bank notes. The only jobs that are created by strikes, restrictive practices, go-slow, are jobs in other countries.

2.8 When big unions use their muscle, they may not immediately export their own members' jobs to other countries, but that will be the end result.

2.9 The only way that unions can 'defend their members' jobs and living standards', let alone improve them, is to help their members to produce more. Bargaining can't create more goods, so it cannot, on its own, make people better off. Striking and overmanning make everyone poorer. The real 'boss' is not the manager, but the customer. If you lose him, you lose your job.

3 WE CAN'T GET RICH BY PRINTING MORE BANK NOTES

3.1 More money without more production means higher prices. That means fewer jobs. If government prints money to try to prevent the loss of jobs, then we get inflation.

3.2 When governments print too much money, there are moral as well as economic consequences. Savers are swindled. Borrowers are subsidised. Lenders and investors are cheated. Everyone gets frightened and suspicious. Managers stop investing. People start fiddling their taxes. Big unions use their muscle to protect their members at society's expense.

3.3 High government spending will inevitably lead either to more inflation, or higher taxes, or both.

3.4 This is why holding back public spending and stopping printing too much money is our top priority. To try to rebuild our prosperity without first curing inflation would be like trying to put the roof on a house before you've built the walls.

4 GOVERNMENT CAN CURE INFLATION

4.1 Curing inflation means making sure that the amount of money matches the amount of goods. Getting the two to match takes time. If we try to do it too fast, a lot of innocent people (who weren't responsible for causing inflation) would be hurt. If we go too slowly, then we delay Britain's economic recovery.

- 4.2 But governments can end inflation if they have the will to do so. It requires tough measures - high interest rates, holding back government spending - but it can be done. This Government will do it because we know that there is no alternative.
- 4.3 The trade unions cannot prevent us curing inflation (nor do they wish to do so). But trade union leaders could, if they do not understand the consequences of their actions, make the curing of inflation much more painful in terms of recession and unemployment.
- 4.4 Union leaders carry a heavy responsibility here. They should understand that the Government can and will end inflation, and then persuade their members not to try for the impossible - in other words not to try and stay ahead of the present inflation rate. If they try for the impossible, unemployment will rise much higher than it needs to do before inflation is cured.
- 4.5 Government can ensure that we get back to a stable currency that keeps its value. But no government can wish away real price rises. If oil gets more expensive, then we have to pay more for oil. If miners get pay increases without any output increase, then coal prices will rise. If railwaymen win large awards without any productivity improvement, rail fares will go up. The best way to get prices down is to get productivity up.
- 5 THE GOVERNMENT WILL DO ITS JOB.

Government

Government can cure inflation. This Government willingly accepts that responsibility - and it will not turn back from it.

Employees

Think for yourselves. Listen to the moderate union leaders, not the militants. Demand strike ballots.

Employers

Make sure the work force knows what is happening, what is at stake, what is the true situation (the financial position in the private sector, the cash limits in the public). You can't ask them to trust you if you don't show you trust them.

Info + Publicity

Ref: A02693

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PRIME MINISTER

Influencing National Pay Behaviour
(E(80) 66)

BACKGROUND

In this paper the Chancellor of the Exchequer sets out some general ideas for a campaign of public education to bring home economic realities as they affect pay bargaining.

2. He warns that, while it will be necessary to make use of some figures to support the Government's case, care must be taken to avoid giving the impression of setting a norm. Figures should be used illustratively, to point out the implications for the economy, and for unemployment in particular, of varying assumptions, and notably:-

- (i) the relationship between unemployment and the ratio of average earnings to the money supply;
- (ii) the relevance of relative earnings to our international competitive position;
- (iii) international comparisons of the relationship between earnings and prices, in order to illustrate the need to break the link between pay expectations in the United Kingdom and the Retail Price Index.

The Committee's decisions on the approach to public sector pay will also be highly relevant.

HANDLING

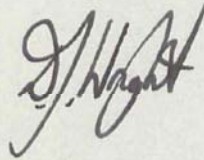
3. After the Chancellor of the Exchequer has introduced his paper the Paymaster General will wish to comment. I do not think that the paper calls for much detailed discussion.

CONCLUSIONS

4. In the light of the discussion you will wish to record conclusions:-
- (i) Endorsing the general approach in E(80) 66.

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- (ii) Taking note that the Publicity Unit under Mr. Ingham, and in consultation with the Chancellor of the Exchequer and the Paymaster General, will co-ordinate the preparation of publicity for a campaign of public education on pay questions, making use of the themes suggested in the Chancellor's paper.



(Robert Armstrong)

*(approved by Sri. R. Armstrong
and signed on his behalf.)*

22nd July 1980

CONFIDENTIAL

PRICES, PAY AND JOBS

2
PRIME MINISTER
MJ

The retail prices index for June is good news in the fight against inflation. The year-on-year increase eased down to 21.0 per cent, from 21.9 per cent in May. When the index for July is published next month we shall see a steep fall in the year-on-year increase as the effect of last year's rise in VAT is eliminated from the calculation.

Raw material and wholesale prices point to a further slowing down of retail price increases during the months ahead. There are other indications too that inflation is starting to turn downwards.

The Government is determined to get the inflation rate down a lot further. Unless we do so we cannot expect economic recovery, however well we do in other respects. This is why the Government has taken a firm grip on the money supply and will maintain it in the years ahead.

Unless people understand this and reach realistic wage settlements from now on they will worsen job prospects in a situation where unemployment is already growing with the world recession.

Many firms are finding they cannot compete in either the British or world markets. We have brought a great deal of this trouble on ourselves through wage increases which are completely out of line with production and business prospects.

But the days have gone when management could give in to pay demands which they could not afford, believing they could push higher costs straight on to prices, or borrow cheap money or run to the Government to bail them out.

The game of easy options is over. Unless we apply the lessons which are staring us in the face now we shall pile up still worse trouble for the future.

Since the start of this year average earnings have been going up at an annual rate of over 20 per cent, probably twice as fast as in other industrial countries. This at a time when production has been falling, and when Britain's strong exchange rate meant that we should have been watching costs very carefully in the interests of staying competitive against overseas producers.

Another result of this stupidity about wages is that we have been milking the profits of industry almost dry. In real terms, allowing for inflation, company profits have fallen drastically (3 $\frac{1}{2}$ % on assets after tax in 1979 and even lower now). We should not be surprised if firms lack money to invest and create new jobs, or even to survive the world recession.

The all-important lesson is that we have to stop behaving as though the objective of pay bargaining is to create bankruptcies and unemployment.

This means not chasing more than enterprises can afford to pay when their situation and prospects are considered realistically. A big pay rise is no use if the result sooner or later is unemployment.

Realism also means taking account of the Government's decision to reduce the growth of money supply. This is a fact of the real world which all who are responsible for decisions ignore at their peril.

Some pay settlements are now being made on a realistic basis. The Government's decision to make drastic cuts in increases recommended for Ministers, senior people in the Civil Service and armed forces, and heads of nationalised industries - and to recommend that pay rises for MPs should be cut by one third - shows that nobody can opt out of responsibility for getting pay settlements back to reality.

Realistic pay rises mean a general level much below the price increases we can expect from now onwards. That means a temporary fall in living standards. But this realism is essential if we are to avoid soaring unemployment.

PAYMASTER GENERAL'S OFFICE
PRIVY COUNCIL OFFICE
68 WHITEHALL
LONDON SW1A 2AT

18 JULY 1980

CONFIDENTIAL



*Info + Publicity
MBM*

cc to Lyhan

CABINET OFFICE
Central Policy Review Staff

70 Whitehall, London SW1A 2AS Telephone 01-233 7765

*R
17/7*

From: J. R. Ibbs

Qa 05077

16 July 1980

Dear Angus,

Influencing National Pay Behaviour

The Prime Minister has asked that I should send you a copy of the enclosed draft paper by the CPRS. This was prepared with E Committee in mind but at the Prime Minister's request is not now to be circulated. The points I should like to emphasise are:

- (i) the aim has to be to achieve a permanent change in attitudes to pay and productivity, not just a temporary one whilst times are obviously difficult;
- (ii) the campaign needs to go wider than Ministerial speeches and briefing for the press: in particular it would be helpful if the message can be picked up and relayed by people who are respected as being independent;
- (iii) planning of this is obviously a matter for professionals and it will be worth seeking the best possible advice.

I am sending a copy of this letter to the Prime Minister and to Sir Robert Armstrong.

*yours ever,
R.I.C.*

J R Ibbs

The Rt Hon Angus Maude TD MP
Privy Council Office
Whitehall
S W 1

Enc

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INFLUENCING NATIONAL PAY BEHAVIOUR

Note by the Central Policy Review Staff

The CPRS agrees with the Chancellor - E(80)66 - that it is crucially important to bring about a fundamental change in public attitudes towards pay. In particular there is a need to bring home the trade-off between earnings and employment, and to reduce the perceived "going rates" of settlements.

2. As the Chancellor says, the Government should proceed urgently with the campaign of public education. The shape and detail of the campaign are primarily matters for professionals. The material in the Chancellor's paper provides the basis for a campaign but it will clearly need to be developed much more fully.

3. The CPRS believes that the time-scale and breadth of the campaign may need to be greater than has so far been contemplated. It is obviously important to produce and to sustain a favourable mood during the coming year. But what is also needed is a long-term campaign (lasting for two years at the very least) which aims steadily to develop a better appreciation of the underlying relationship between pay and productivity.

4. The planning of such a campaign has three important ingredients:-

- (i) decisions on its long-term shape - including consideration of the full range of audiences to be reached;
- (ii) provision of sufficient flexibility to ensure that there can be a quick response to current moods, events and opportunities; and
- (iii) development of material and arguments that are suitable for both these purposes.

5. The CPRS believes that the campaign should not be limited to Ministerial intervention, but should embrace the full range of media - including the press and television (eg through Party Political Broadcasts). It would in addition be valuable if the services of outside commentators - "weighty independents" - could be brought to bear. Their participation in a public debate may be treated as more impartial than the Government's.

6. There is a need for careful consideration by professionals of the best way to put over the Government's case. Thus the CPRS believes:-

- (i) The trade-off between earnings and employment will need to be handled with some care. Continuing high unemployment is inevitable.

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If the Government were to suggest that a moderation of pay claims would substantially alter this picture in the near future, there is the danger that even a successful policy on pay would be discredited. The campaign will need to be so constructed that, even when pay settlements are reduced, there is a sufficient understanding of the underlying relationships between pay, productivity and employment to enable the Government to head off demands for precipitate reflation.

- (ii) Similar care will be needed in the use to be made of movements in the RPI. Obviously, as the Chancellor suggests, the Government will want to take credit for the likely improvement. But, as a guide to wage settlements, this is a double-edged instrument. It will be argued that Ministers have endorsed the link between earnings and the RPI and if, for any reason, prices did not fall as quickly or smoothly as hoped, this could be damaging. So far as wage settlements are concerned, it might be better to reject the RPI as a yardstick altogether, and to acknowledge openly that the situation demands a cut in living standards.

7. From the first the campaign should be separately directed towards a number of different audiences - the general public, management, trade unionists, employees generally and opinion leaders. The same message will not necessarily be appropriate to each. Most obviously it may be appropriate to present the earnings/employment trade-off in different ways. Thus trade union leaders may be less willing to acknowledge this basic argument than the man-in-the street, and some opinion leaders would almost certainly challenge the relationship presented in Annex A to the Chancellor's paper, eg by suggesting that the pattern for both variables is a feature of the trade cycle.

8. To summarise:-

- (i) The publicity campaign should proceed urgently, and should be planned to cover at least two years.
- (ii) The details of the messages for these purposes require careful consideration by professionals.
- (iii) The campaign should be directed separately towards a number of different audiences.
- (iv) The full range of media should be considered.

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c.c. Mr. Ingham



Info + publicity

10 DOWNING STREET

From the Private Secretary

Mr. Ibbs

Influencing National Pay Behaviour

The Prime Minister has now read Mr. Downey's note of 11 July and the draft paper which he enclosed with it. She has asked if you would kindly send a copy of the paper to the Paymaster General, but she does not wish it to be circulated to E Committee. She has commented that what is really needed now is advice on the campaign.

I am sending a copy of this minute to Sir Robert Armstrong.

I. P. LANKESTER

15 July, 1980.

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Send

PA.
MS.
MR. WHITMORE

Original returned to
Press office

cc. Mr. Lankester

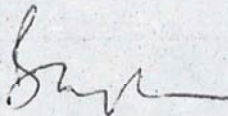
Influencing Pay Behaviour

E is down to consider this subject on Tuesday, July 22.

We ought to be in a position by then to report that we have the makings of a unit to make recommendations on a campaign and to provide material for that purpose. Can I have your advice on how we might expedite matters, given the argument going on about responsibility for pay and rations? We need to tie things up this week if we can.

E (80) 66 from the Chancellor, which is to be considered on July 22, is long on arguments but short on practical means of getting over the message. CPRS intend to put in a supplementary note on this paper and I have commented on their proposals. I have also stopped them, I hope, from canvassing the idea of a Junior Minister to run the campaign (I said I have enough people complicating matters without adding one more. I also hope that I have stopped them from saying that resources in No. 10 Press Office should not be skimped (on the basis that the Prime Minister is unlikely to take kindly to such advice).


Perhaps Mr. Lankester could advise me on Thursday or Friday morning whether it might be useful if I put in what might be termed a professional commentary to the Prime Minister for the weekend when we are in a position to take stock of the papers covering this item on the agenda? What do you think?



B. INGHAM

14 July, 1980

MR. WHITMORE

cc. Mr. Lankester 

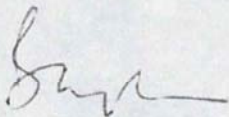
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B. INGHAM

14 July, 1980

Prime Minister

I think the attached note should be circulated for E next week. Also, Benn ought to attend the E meeting. Agree?

Qc.02499

TO: MR LANKESTER ✓

FROM: MR DOWNEY

Influencing National Pay Behaviour

The CPRS has prepared the attached commentary on the Chancellor's paper "Influencing National Pay Behaviour" (E(80)66), because it is convinced that this is an issue of great national importance. At the same time, we appreciate that much thought has already been given to the subject, both by Ministers and by the No.10 Press Office.

17.

14/7

2. The CPRS believes that the No.10 Press Office, which will inevitably be at the sharp end of the campaign, needs to be supported by all the strength the Government can muster in preparing and sustaining the basic message. The intention of this paper is to draw the Committee's attention to the need for a sustained campaign lasting well beyond the coming autumn. However, the CPRS does not wish to confuse the situation by putting in a further paper unnecessarily, and would only wish to circulate it if the Prime Minister thought that it would be helpful. We should be glad of your guidance.

3. I am sending a copy of this minute to Sir Robert Armstrong.

957

11 July 1980

No - I think it should be shown to Angus. You will find, I believe, that he already has this in hand. What we need is external advice on the campaign to eff. not

CONFIDENTIAL

INFLUENCING NATIONAL PAY BEHAVIOUR

Note by the Central Policy Review Staff

The CPRS agrees with the Chancellor - E(80)66 - that it is crucially important to bring about a fundamental change in public attitudes towards pay. In particular there is a need to bring home the trade-off between earnings and employment, and to reduce the perceived "going rates" of settlements.

2. As the Chancellor says, the Government should proceed urgently with the campaign of public education. The shape and detail of the campaign are primarily matters for professionals. The material in the Chancellor's paper provides the basis for a campaign but it will clearly need to be developed much more fully.

3. The CPRS believes that the time-scale and breadth of the campaign may need to be greater than has so far been contemplated. It is obviously important to produce and to sustain a favourable mood during the coming year. But what is also needed is a long-term campaign (lasting for two years at the very least) which aims steadily to develop a better appreciation of the underlying relationship between pay and productivity.

4. The planning of such a campaign has three important ingredients:-

- (i) decisions on its long-term shape - including consideration of the full range of audiences to be reached;
- (ii) provision of sufficient flexibility to ensure that there can be a quick response to current moods, events and opportunities; and
- (iii) development of material and arguments that are suitable for both these purposes.

5. The CPRS believes that the campaign should not be limited to Ministerial intervention, but should embrace the full range of media - including the press and television (eg through Party Political Broadcasts). It would in addition be valuable if the services of outside commentators - "weighty independents" - could be brought to bear. Their participation in a public debate may be treated as more impartial than the Government's.

6. There is a need for careful consideration by professionals of the best way to put over the Government's case. Thus the CPRS believes:-

- (i) The trade-off between earnings and employment will need to be handled with some care. Continuing high unemployment is inevitable.

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If the Government were to suggest that a moderation of pay claims would substantially alter this picture in the near future, there is the danger that even a successful policy on pay would be discredited. The campaign will need to be so constructed that, even when pay settlements are reduced, there is a sufficient understanding of the underlying relationships between pay, productivity and employment to enable the Government to head off demands for precipitate reflation.

- (ii) Similar care will be needed in the use to be made of movements in the RPI. Obviously, as the Chancellor suggests, the Government will want to take credit for the likely improvement. But, as a guide to wage settlements, this is a double-edged instrument. It will be argued that Ministers have endorsed the link between earnings and the RPI and if, for any reason, prices did not fall as quickly or smoothly as hoped, this could be damaging. So far as wage settlements are concerned, it might be better to reject the RPI as a yardstick altogether, and to acknowledge openly that the situation demands a cut in living standards.

7. From the first the campaign should be separately directed towards a number of different audiences - the general public, management, trade unionists, employees generally and opinion leaders. The same message will not necessarily be appropriate to each. Most obviously it may be appropriate to present the earnings/employment trade-off in different ways. Thus trade union leaders may be less willing to acknowledge this basic argument than the man-in-the street, and some opinion leaders would almost certainly challenge the relationship presented in Annex A to the Chancellor's paper, eg by suggesting that the pattern for both variables is a feature of the trade cycle.

8. To summarise:-

- (i) The publicity campaign should proceed urgently, and should be planned to cover at least two years.
- (ii) The details of the messages for these purposes require careful consideration by professionals.
- (iii) The campaign should be directed separately towards a number of different audiences.
- (iv) The full range of media should be considered.

● PART _____ (_____) ends:-

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PART _____ 2 _____ begins:-

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