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Prime Minister

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PRIME MINISTER

c.c. Mr. Hoskyns

Pay

You may find it helpful to have this short note of developments on the pay front while you have been away. There are no issues requiring urgent collective Ministerial attention.

The latest monitoring reports, and a covering note from the Chancellor on the public sector, are attached. There is no need for you to go through them, and they are already a bit out of date. The main features are:-

- There are no signs (yet) of a return to total irresponsibility, as might be indicated by, for instance, strike threats in support of 15-20%, or an effective coordination of action by the public service unions; but
- Expectations seem to have drifted up a couple of points, which must be at least partly because of higher expectations of inflation. If higher mortgage rates push the RPI beyond 12% in December, pay bargaining will be a lot harder.

The position of the main groups negotiating this autumn is as follows:-

- (i) The NCB have now told the miners the total sum available, which has been interpreted as an offer of about 7%. There was no outraged reaction from the NUM. Both sides meet again on 19 October. So far, so good.
- (ii) Sir Robert Marshall is not expected to be willing to open the bidding with the water workers at less than 7%. Officials will have ready the report you commissioned, on how we can withstand industrial action, by 22 October.

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- (iii) Local authority manual workers have agreed on a claim, to be presented next Tuesday, of 12%.
- (iv) There has been no progress on de-indexing firemen's pay, or linking it with a no strike agreement. Michael Scholar is chasing the Home Office,
- (v) In the private sector, the main groups negotiating at this time of year are in the highly competitive engineering sector. There have been few settlements, mostly in the 5-8% band. The Engineering Employers Federation is sticking to a final offer of 3.16%, but GEC has broken loose; and BL is threatened by an all-out strike over its final offer of 3.8%. Vauxhall's offer of 5% has also been rejected, and Ford has not yet begun serious negotiations.
- (vi) Professor Layard launched his "Wages-Inflation Tax" proposal in a lecture at LSE yesterday. So far it has not attracted much interest.

*J.*

8 October, 1981.

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