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NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,
H.M. TREASURY AT 9.00 A.M. ON MONDAY, 28 JULY, 1980

Present:

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| Chancellor of the Exchequer | Sir Derek Ezra (National Coal Board) |
| Secretary of State for Industry | Sir William Barlow (Post Office) |
| Secretary of State for Employment | Sir Denis Rooke (British Gas Corporation) |
| Secretary of State for Energy | Sir Frank Tombs (Electricity Council) |
| Secretary of State for Trade | Sir Peter Parker (British Rail) |
| Minister of Transport | Mr. Ian MacGregor (British Steel Corporation) |
| Minister for Local Government and Environmental Services | Sir Robin Marshall (National Water Authority) |
| Mr. Ryrie | Mr. Ross Stainton (British Airways) |
| Mr. Monck | Mr. J. Driscoll (NICG Secretariat) |

NATIONALISED INDUSTRIES: PAY AND EXTERNAL FINANCING LIMITS

The Chancellor welcomed the representatives of the Nationalised Industries Chairmen's Group. He noted that Ministers would have suggested a meeting with the Chairmen about pay in the nationalised industries, if Sir Derek Ezra had not proposed it. He saw a clear distinction between the public service and public trading sectors; the nationalised industries were operating in the markets for goods and services, and had to live alongside the private sector. The Government's objective for the nationalised industries, as for the private sector, was to bring pay settlements down to a more sensible level, so as to achieve greater competitiveness. The Government were not setting any kind of pay norm, but they were pointing to the clear link between high pay settlements and increasing unemployment, and to the bounds set by the Government's monetary target. The Government were seeking in much the same way as the CBI to reduce expectations about the next round of pay



increases, which would need broadly to be in single figures, given the monetary target and the need to minimise damage to competitiveness. Sir Derek Ezra said that the Chairmen would welcome the Government's broad approach.

2. A number of points were made in a general discussion of the criteria which should govern pay determination in nationalised industries:-

(i) the monopoly position of some of the industries meant that disputes in those industries could inflict substantial damage on the rest of the economy and reduce the ability of the managements to resist wage demands. On the other hand, however, the extent of monopoly situations should not be exaggerated; for example, the NCB could be exposed to considerable competition from imports, while British Rail plainly were competing in the freight market. Moreover short run exploitation of a monopoly position was likely to have adverse implications in the longer run for an industry's output and employment.

(ii) "Ability to pay" was not an argument which carried much conviction in the nationalised industries - and particularly in those which were profitable; and it was in any event questionable whether the Government wanted to rely too heavily on this particular pressure, since experience so far suggested that even in the private sector it was only effective when the firms concerned had been driven to the edge of bankruptcy. Nor could productivity bargaining supply the complete answer, since in a number of the industries effective local productivity payment arrangements were already in successful operation. The NICG understood that the CBI would be dropping the 'ability to pay' argument.



(iii) The need for nationalised industries to retain sufficient cash to finance their investment programmes might serve as a reason for pay moderation in some instances; but in other industries prices sufficient both to finance new investment and to make net repayments of debt were being charged, and arguments based on the need to generate further internal funds could not carry conviction. It was also questionable how far expanding capital-intensive businesses ought to increase their prices in order to achieve a higher degree of self-financing.

(iv) Nevertheless in one way or another each of the industries was affected by the links between pay and prices, and pay and unemployment. All the industries were under financial pressure of some kind, and the arguments reflecting these links would need to be deployed in each case in a way which reflected the particular circumstances of the industry concerned.

(v) It was important to ensure consistency from year to year in the approach by the Government and the nationalised industry managements towards pay in the industry; they should avoid changing the arguments from one negotiation to the next for what would appear to be opportunistic reasons.

3. Particular emphasis was laid on the need for effective communication between nationalised industry managements and their employees. Although the Government could make a very substantial contribution towards improving the public understanding of the economic realities underlying pay determination, the Government's general message could not provide the precise answer in the case of each of the industries. In devising appropriate means of communication, nationalised industry managements would



need to bear in mind the differences of view and approach between national union leaderships, local union officials, and the mass of employees on the shopfloor. There was some evidence that the shopfloor were readier to come to grips with economic realities than the leadership, while the leadership was in a better position to communicate directly with the management. Managements should therefore seek to improve their communications with the shopfloor, and the need to do this should be brought home to line managers and supervisors at every level. At the same time it would be helpful if Government departments could be kept in touch with the precise approach towards pay bargaining being adopted in each industry, and the arguments which were being deployed, so that the Government's and the industries' efforts could more effectively complement each other.

4. Attention was focussed on the risks of political reactions from some of the trade unions concerned. These unions might look for an opportunity to present the external financing limits (EFLs) fixed by the Government as in some sense a confrontation with them, and the Government and the nationalised industry managements should therefore try to avoid driving trade union leaders into a corner from which they had to fight back. This had some implication for the size of next year's EFLs, and the extent to which wage increases could be held below increases in prices. Some of the nationalised industries chairmen referred to their earlier proposal for publishing in the autumn only an aggregate EFL for the industries as a whole, with the breakdown between industries only published much later when the tone of the pay round was much clearer. Other Chairmen, however, had found it helpful to have the EFL clearly specified, so that the union negotiators concerned could see plainly when there was no more money to be had.

5. The Chancellor noted that detailed work on fixing the EFLs for 1981-82 would begin in September. It would be important that what was assumed about pay in each case should not be made public, since this would gravely weaken the hand of the managements concerned in subsequent negotiations. While it ~~would~~ ^{might} in some



respects be more convenient to delay fixing the EFLs until nearer the beginning of the next financial year, when more accurate business forecasts could be made, the fact remained that the Government were responsible for overall public sector cash flow, and had to have a clear basis on which to set fiscal policy. The recommendations of the Armstrong Committee, if they were to be accepted, would mean fixing EFLs even earlier than was now contemplated. It was accepted that not too much reliance should be placed on EFLs in securing moderation in pay settlements; external finance was generally a small proportion of each industry's total turnover, and ^{some} trade union negotiators were reluctant to accept their relevance to pay settlements. On the ~~specific~~ assumptions to be made about pay, the Chancellor emphasised that these would need generally to be well below the 13 per cent assumed in last ^{to reflect the fact that the government would be aiming} years RSG settlement, while at the same time the Government and ^{for example, at figures significantly lower than the 13% assumed for last} the industries would need to avoid the last Government's mistake of ^{years} sticking too rigidly to a figure ^{seeking to apply any single figure across the board particularly} as low as 5 per cent. ^{for} across the board application.

6. In further discussion of influencing pay attitudes in the longer-run, the point was made that the Government could usefully broaden its contacts with the trade union leaders concerned. Only a minority were concerned in NEDC discussions, and a dialogue needed to be established with the others. An important advance would be achieved if the TUC could be persuaded to take part in widening public understanding of economic realities. At the same time the obstacles in the way of the creation of the sort of consensus on pay which seems to operate in Germany, and the difficulties of making progress with the TUC leadership, were clearly recognised. It was suggested that more emphasis on the positive steps to improve UK real wages, and the contribution employees could make towards this, would be helpful.

7. Sir Derek Ezra said the NICG would like to put forward some ideas on the longer term approach to pay in nationalised industries, and suggested that these might be discussed by a



joint group officials and NICG representatives analogous with the recent Ryrie group on nationalised industries finance.

Conclusions

8. The following conclusions were recorded;

(i) the nationalised industries would inform the sponsor Departments of the approach they would be taking to the next round of pay negotiations, and of the steps they were taking to communicate the managements's viewpoint to their employees;

(ii) work on the establishment of next year's EFLs (which would be announced in November) would begin in mid-September, on the basis that the Government would not be setting any sort of a pay norm but that in general pay increases and the provision for them would need to be held well below the provision in the current year's RSG, in order to achieve consistency with the monetary target and avoid further damage to UK competitiveness; and

(iii) a meeting between Ministers and the full NICG would be held towards the end of this year.

JW

(A J WIGGINS)

30 July 1980

Distribution

PS/Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrie
Mr. Middleton or
Mr. Dixon
Mr. Monck
Mrs. Case
Mr. P. Rayner
Mr. Ridley

Private Secretaries to Ministers
present at the meeting
PS/Secretary of State for Scotland
Mr. T. Lankester, No.10