

Copy to N Hoskyns.

Post Office

Prime Minister

The Chancellor's views coincide very much with your own.

We are arranging a new time for you to see him and Sir Keith Joseph.



mt.

fah

21.x.80

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

PRIME MINISTER

In advance of our meeting about the Post Office's proposed tariff increases, I have been thinking hard about the problems posed, and it may help if I put on paper a brief record of the way my mind is moving.

2. I think the issues are very clearly pointed up by Keith Joseph's minute to you of 15 October. We can see in it clearly enough the dilemma facing Mr Dearing and, I think, the right way ahead. As Keith describes it, Mr Dearing has inherited a position in which his scope for action is severely circumscribed. The chief constraint is that the Post Office unions have been slow to accept the need for improved productivity, whatever their moderate image might suggest to the contrary. As Keith says, "An experimental scheme is getting under way after years of resistance, but it is only modest in scope and 70% (or possibly more) of the benefits go to the workforce." It seems to me axiomatic that, if nothing can be done to get the Post Office unions to move faster, or to keep less of the fruits of the productivity agreements for themselves, then there is absolutely no way left of removing the constraints on Mr Dearing. The central issue which faces us at our meeting must, therefore, be to decide how we approach this fundamental problem of productivity.

3. Keith's minute makes it absolutely clear that Mr Dearing and the Post Office management will say that a quicker or more

/urgent search for



No
No

urgent search for savings will put in jeopardy the current programme of changes in working practices. He will argue that short term economies are difficult to make in the postal business. Clearly there are delicate industrial relations considerations which determine the possible pace at which improvements in working practices can be introduced. But, not least because of the damning analysis in the Monopolies and Mergers Commission report, I am extremely sceptical, as to it being so difficult in any objective sense to find short term economies. Even allowing for some poetic exaggeration, can we honestly doubt the scope for major economies in an organisation which is so replete with such practices as manufactured overtime, absenteeism and a generalised absence of control over the labour force. Surely what is needed now is a fairly radical and urgent programme of change, as near as possible on the lines pioneered by Sir Michael Edwardes at British Leyland.

He would give in later than.

4. The proposal for such a campaign could reasonably be linked with the question of next year's pay settlement. The way to do this would be to insist that the Post Office should accept the 2p/1p increase in tariffs; and ensure? that productivity advances fast enough over the next 18 months to ensure that a 6 or 7% increase in wages in the next round is comfortably accommodated without further tariff increases.

/Clearly such a



5. Clearly such a programme would have to be monitored. This would mean, in effect, going back on the agreement reached recently that the Post Office's undertakings to improve productivity in the light of the MMC report (by 15%) over three years after many years of absolute decline should only be judged after that full three year period is over. However I have the impression that this would not be totally unacceptable to Keith. Apart from anything else, paragraph 10 of his minute records, "I shall seriously consider early use of the powers I am taking to make derogations from the postal monopoly ... I cannot use these powers until about July next year ..."
6. This brings me, then, to the question of what sanctions one should both prepare now and be willing to use in July if the Post Office's progress is unacceptable. My instinct is that Keith is right to suggest a serious and radical examination of the scope for privatisation - including such measures as the letting out of sorting offices to private enterprise.
7. In our discussion we should bear in mind the relationship between the issues before us and the wider question of the Post Office's performance objectives. What I am suggesting is clearly tantamount to a revision of the performance objective.
8. I should stress that these are only preliminary thoughts, and I am the last to pretend that I am sure they will bring the results we want. We would be asking the Post Office to find ways of absorbing £160 m of wage costs in 1981/82. What would happen if the results fall short is therefore impossible to foresee at this stage - we must cross that bridge when we come to it, if we do. What I am quite certain about is the vital importance of being firmer with the Post Office in the near future. Its charges may not be the most prominent element in anyone's expenditure or in any business's



costs. But it is significant throughout the economy, and a major source of irritation, particularly when price increases come as fast and furious as they look like doing for the time being.

Conclusion

9. In concrete terms, therefore, I am recommending the following:

- (i) Renegotiation of the industry's performance objective. -
- (ii) A 2p/1p price increase.
- (iii) Unilateral re-opening of the agreement not to review progress under the MMC proposals for three years. f
- (iv) An agreement with the Post Office management that they should approach the matter of productivity improvements afresh, with a view to a "British Leyland" scrapping of restrictive practices and increase in productivity.
- (v) No further increase in wage costs to be allowed for in the 1981/82 wage round; and an insistence that any wage increases to be negotiated then will be fully offset by productivity improvement.
- (vi) A threat that if the Post Office cannot adhere to such a programme, there will be immediate derogation of the monopoly.
- (vii) Contingency plans should be drawn up now to deal with both early privatisation and, conceivably, the risk of industrial action in response to Government pressure.

*Copied by the Chancellor's Office
to Sir Keith Porter and
Sir Robert Armstrong.*

(G.H.)

21 October 1980