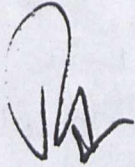


PRIME MINISTERNATIONALISED INDUSTRIES' EFLS 1981/2 - E, WEDNESDAY

1. Paragraph 9 of the Chief Secretary's paper proposes that £200m of the £500m residual increases in NI's EFLs should be recovered. Given the public expenditure position, should we be aiming for more - possibly the whole £500m?
2. Although now reduced, the pay assumptions for the NIs remain far too high. On the one hand we have a proposal for 6% on the public services; on the other we have the best examples of hard-pressed manufacturing industries in the private sectors settling well within single figures. Against this background, there can be no case for loss-making nationalised industries (or inefficient ones whose losses are disguised by high prices) assuming that they will pay 10% more this year. We understand that 1% on the total NI pay bill is worth approximately £125m.
3. Of course, the Treasury are very reluctant simply to write down more favourable pay assumptions, only to find that the savings are not in the event achieved. The answer to this can only be that they must be achieved and that if they are not, the industries will have to adjust their own investment programme accordingly. But surely it would be better to make this clear than simply to resort to investment cuts. Nationalised industry chairmen should be told to make it crystal clear to their own employees that pay assumptions are very low and that anything exceeding that will strike at their own industry's future.
4. Ministers should be ready to use whatever influence they can with NI chairmen, without, of course getting identified with the process of negotiation itself. Ideally, perhaps, we should leave this entirely to the NI board themselves. But we submit that this principle is a luxury we cannot afford if it means pay assumptions of 10% plus - which in turn could easily mean outturns substantially higher still.

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5. There may also be a psychological case for all NIs to start in single figures, as a position consistent with recession and the need for pay to be less than the going rate.
6. I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

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