



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

PRIME MINISTER

NATIONALISED INDUSTRIES PAY

I copied to you my letter to Keith Joseph of 17 March expressing anxiety about forthcoming nationalised industries pay negotiations and suggesting that we take stock.

2. I have since met with the Ministers concerned and you may be interested to know the outcome.

3. We agreed that the situation as regards the large monopoly industries needed careful watching. Keith Joseph and Norman Fowler will do all they can to influence managements towards modest settlements in the industries - rail, posts, telecommunications - where negotiations are still at a preliminary stage. We agreed that we should have prepared an up-dated assessment of the likely consequences of industrial action in these three. This would enable us not only to make plans to mitigate the impact but also to assess the risks and decide how far the Government should go in bolstering management in the face of possible action. Keith Joseph and Norman Fowler are initiating this. Once it is complete, I suggest the Civil Contingencies Unit should consider and report to Ministers.

4. We agreed also to pursue the following:-

(a) How far can future investment decisions be made to depend on effective cost control, including productivity and moderate pay settlements? How can the importance of this connection be got across to management, unions and the wider public? To some



extend EFLs enforce such choices but not wholly effectively. The Treasury and Department of Employment officials are to examine this point.

(b) We need to give further thought to the possibility of getting rid of closed shops in local government and in water authorities. This question will arise in the context of discussions on the Green Paper on Trade Union Immunities, but Jim Prior agreed that he would look urgently into this meanwhile.

(c) A further point made by Michael Heseltine, with which we all agreed, is that although there is scope for improving efficiency in all parts of the public sector, such improvements, even if linked to pay settlements, may be very difficult to achieve unless managements are thinking in these terms sufficiently early. There is probably a good deal that can be done to encourage managements to think in a new critical way about manpower requirements, so as to reduce the impact of pay increases on prices. We all agreed to consider further how this point could be brought to the attention of managers in the nationalised industries.

(G.H.)

26 March 1981