

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Telegrams Cobustry London WC1

From
Sir Raymond Pennock
President



15

CONFIDENTIAL

7th July 1981

K9/7

Dear Prime Minister,

PAY IN 1981/82

I have mentioned to you in recent meetings that we were planning to hold two conferences of chief executives and industrial relations directors from a wide range of companies and employer organisations to discuss an agreed course of action for pay settlements in the twelve months ahead.

Approximately 140 attended the conferences which were held on 18 and 25 June and I thought you would be interested to know how the discussions developed there.

The conferences began with two fifteen minute presentations by the CBI's Chief Economic Adviser and the Director of Social Affairs. Their main themes were as follows:

On the economic front

Since mid 1980, settlement levels have reduced substantially - for example from an average of just over 16% in manufacturing to a current average of about 8%. Although this has been a substantial achievement, it has been insufficient to prevent a further decline in output, employment, profitability and above all competitiveness.

Our labour costs have risen consistently faster than our competitors' (for example by 25% compared to their 10% on average in 1979/80). Unless we can reverse this by higher productivity and lower pay settlements we cannot hope to reverse the decline in competitiveness.

High pay settlements have eaten away at real profits (forecast at 2% for 1981, apart from the North Sea). This has led directly to falls in investment and employment.

Unless labour costs are contained, inflation and unemployment will rise, output will stagnate and eventually fall back and profitability and investment will remain intolerably low.

/ ...

On the industrial relations front

We must ask whether the "realism" of the last twelve months has been based on fear or understanding; whether there has been a change of behaviour or of attitude.

Pay bargaining in the last twelve months has resulted in settlement levels well below the Retail Price Index, and a considerably wider distribution of settlements than in previous years.

There has been much less evidence of a "going rate".

In sharp contrast to 1980/81, and despite a wide spread within the sectors, there has been far less disparity in settlements between private sector manufacturing, nationalised industries and public services (see Chart 32 in enclosed booklet).

We have further handicapped ourselves by substantial concessions on working time, in advance of our competitors (nearly 50% of British manual workers will be on a standard week of 39 hours by next year).

Industrial relations pressures may well increase in the next twelve months, making low settlements harder to achieve.

Economic pressures, on the other hand, particularly of unemployment and cash flow, will still be there.

It will be up to managers to swing the balance. They will have to set firm objectives of planning ahead, explaining the realities of business, aiming for far, far lower settlements than in the previous twelve months and avoiding further concessions on working time.

As someone not involved in their preparation, I can say that the presentations were thought to be first class, with the analysis fully accepted. We were encouraged to repeat the presentations as widely as possible - for example with appropriate members of the Cabinet, with the Permanent Secretaries, with union leaders and with our members throughout the country.

A good deal will depend on the will of managers to carry through lower pay settlements. This in turn will depend on their understanding in depth the economic and financial constraints facing business and thus being thoroughly equipped to communicate these realities to employees well in advance of negotiations.

Employers in the public services, nationalised industries and the few parts of the private sector with relatively high profits which might encourage trade union pressure will have a critical task - to avoid exporting unemployment to the rest of the economy through high pay settlements.

It was also agreed that it would be wrong for the CBI, or the Government, to propose any norm for settlements in the coming months, although it was clear that they must be reduced substantially. Some companies doubted whether they could afford any increase at all.

In addition to the immediate tasks for individual businesses, there was the wider task, particularly for the Government itself, and for the CBI, to do everything possible to influence the public climate on pay and reduce expectations by full and constant explanation of the realities of our economic problems.

We shall be doing everything we can to get these messages across in the weeks and months ahead.

I am enclosing a copy of the illustrated text of the presentations which you may wish to pass on to your staff.

I am sending copies of this letter to the Chancellor of the Exchequer and the Secretary of State for Employment.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Roy Jenkins", with a horizontal line underneath the name.

The Rt. Hon. Margaret Thatcher, MP,
Prime Minister,
10, Downing Street,
London, SW 1.