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*Prime Minister* ②

*MCS 19/3*

*Eca pd*

*mt*

Michael Scholar Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

19 March 1982

*Dear Michael*

... I am enclosing a copy of the latest Pay Brief.

Copies also go to the Private Secretaries to  
Members of E, E(PSP) and E(EA).

*Yours*

*Marie Fahey*

MISS M C FAHEY  
Private Secretary

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1 Since the February pay brief 114 settlements covering 295,000 employees have been recorded. In the private sector (111 settlements covering 254,000 employees) the weighted average level of settlements in the last month was just over 6%. The average in the public sector (3 settlements covering 41,000 employees) was just under 7 $\frac{1}{2}$ %. The principal settlement was Furniture Manufacture (70,000) at between 4.0% and 5.0% on earnings.

2 The cumulative average level of monitored settlements for the whole economy this pay round - 495 settlements covering 3,515,000 employees - is just over 7%, similar to the two previous months.

3 In the private sector the cumulative average remains unchanged at just over 6 $\frac{1}{2}$ % for the third successive month (480 settlements covering 1,955,000 employees). For manufacturing the average level is 6% and in non-manufacturing is just over 7%.

4 In the public sector (15 settlements covering 1,561,000 employees) the cumulative average remains at just over 7 $\frac{1}{2}$ %. IA manuals (1,077,000) at 6.9% dominates the average. There is little difference between the averages in both the public trading and public services sectors.

5 Coverage: The Department monitors settlements covering about 90% of employees in the public sector and about 40% of employees in the private sector. Coverage in the private sector is not based on statistical sampling and may not therefore be entirely representative. The Department also monitors Wages Council agreements, which cover at least a further 15% of the private sector; but, as the way these agreements affect earnings is difficult to estimate, they are excluded from the settlement figures.

#### APPRAISAL OF THE ROUND

6 The trend: Some 28% of employees monitored have now settled - about 32% of the private sector and about 24% of the public sector. Most Wages Councils have also settled.

7 In the private sector the first half of the round saw a continuation in the gradual fall in settlement levels which had been discernible since the earlier rapid fall abated in the autumn of 1980; and virtually all settlements in this round have been below the level for the same group in the previous round. However in recent months this decline has tailed off and it now looks as if a plateau has been reached. This is particularly true of the manufacturing sector where the

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monthly average level of settlements has been broadly stable since November 1981 and where there are even some tentative indications of a slight upwards move.

8 In the public trading sector the settlements for coalmining (7.44%) and water (8.8%) dominate the averages; and as yet no reliable trend is apparent.

9 Nor is a trend yet discernible in the public services. Apart from the index-linked cases of the police and the firemen early in the pay round, the only major settlement has been for the local authority manuals. (6.9%).

10 Characteristics The dispersion of settlements in the private sector is narrower than in the previous round. Most settlements are between 5-8%; and very few are below 5% or above 10%.

11 Settlements in non-manufacturing are generally above those in manufacturing although there are dispersions within both sectors. Above average settlements have been reached, or are expected, in agriculture, food and drink, insurance, banking and finance, distribution and construction. Below average settlements have been reached in vehicle manufacture, clothing and textile. Wages Council agreements, which increase minimum rates, average about 8% ranging from 5% for clothing manufacture (from £54.42 to £57.14) to 11.8% for hairdressing (from £51 to £57).

12 A substantial number of employees have benefited from a reduction in hours agreed in previous rounds. About  $\frac{1}{3}$  of private sector employees have secured a reduction, generally of 1 hour, in this round's agreements, as have the local authorities manuals. About  $\frac{1}{5}$  of private sector employees have also secured holiday improvements.

13 Pressures The main upward pressure continues to be the attempt by unions to secure pay increases to match the RPI year on year increase, which has been close to 12% throughout the round (11% Feb). The TPI, which has been about  $3\frac{1}{2}$ % above the RPI since last November, has had little discernible influence as such on negotiations, although naturally changes in real disposable income, which started to decline in April 1981, and had fallen by  $3\frac{1}{2}$ % by December 1981, must have affected attitudes. Expectations in the private sector have also been influenced to some extent by the highly visible settlements for miners, water and local authority manuals. The main downward pressures in the private sector, according to a recent confidential report by the CBI, have been the continuing low level of profits (although this started to improve about half way through 1981); the inability of companies to pass on pay increases in the form of price increases; and the fear of redundancy by employees.

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14 Prospects The general shape of the round, except for the public services, where the position may not be clear for sometime, is now reasonably clear. A momentum has been established and any likely changes in the economy will probably not affect the outcome of the round significantly. Employees' expectations are likely to remain low - although a recent Gallup survey shows that they are increasing slightly. Taking into account the affects of the budget, the year-on-year increase in the RPI may be expected to decline gradually to about 10% by April. This would be helpful. But the decline is likely to be too gradual, and too late, to affect negotiations in this round to any great extent. The year-on-year increase in the TPI is expected to fall quite sharply in April, when it may be only a little higher than the RPI. But again this is unlikely to affect the round significantly.

15 The Department estimates that for the economy as a whole the average level of settlements in this round will turn out to be in the range of 6-8%, which compares with  $8\frac{1}{2}\%$  in the previous round.

16 The actual increase in earnings, as measured by the monthly Average Earnings Index, will, as a consequence of wage drift, be higher than the data on the level of settlements would suggest. Drift may be expected to be between 1-2%. Thus earnings may be expected to increase by between  $7\frac{1}{2}\%$ - $9\frac{1}{2}\%$ . This compares with  $10\frac{1}{2}\%$  for the previous round. The actual increase in earnings will probably not be completely known until the September Average Earnings Index, which should fully reflect this round's settlements, is published in November.

17 The above estimate for drift needs to be treated with some caution as its level is inherently difficult to predict. There are three main components in drift:-

- (a) Changes in economic activity may cause earnings to increase more or less, usually more, than settlement levels. For example, the number of hours worked may change; the level of output will affect earnings under payment by results systems; and the composition of the labour force may change.
- (b) The data supplied to the Department may be inaccurate or incomplete. This is particularly likely as regard data about settlements.
- (c) The statistical basis and coverage of our settlement data are different from the basis and coverage of the data used for the monthly Average Earnings Index. For example the coverage of the latter is more extensive; it reflects staged increases only once they have become operative and it takes no direct account of non-cash improvements (eg longer holidays) in employees' terms and conditions of employment.

18 Only the effects of the third component can be predicted with confidence.

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NEGOTIATIONS

19 In the PUBLIC SECTOR, unions representing Gas Supply manuals (17 January - 41,300) have rejected an offer of 7.5% to 8.0% on basic rates plus minor improvements, worth 7.6% overall on average earnings. The claim is for increases in rates in line with inflation, consolidation of bonus and other benefits. Unions threaten industrial action. Electricity Supply manuals (17 March - 94,000) have rejected an offer of £4.97 to £10.62 on basic rates plus a shift enhancement of £3.73, worth 6% on the paybill and 6.1% overall on average earnings. The unions are pressing for 8% on basic rates. Next meeting 8 April. British Shipbuilders (1 April - 68,000) have reached provisional agreement on a 6½% increase in earnings, plus 1 hour reduction in the working week agreed last pay round. Subject to ratification by individual yards. Unions on behalf of British Rail Clerical and Conciliation Grades (20 April - 150,000) have submitted a claim (uncosted) for substantial increases. Negotiations are unlikely to begin before the current productivity issue is resolved. The Non-Industrial Civil Service Unions (1 April - 520,000) have rejected an offer of no increase for some staff and between 1% and 5½% for others, together with improvements in skill and responsibility allowances and the introduction of certain other benefits including season ticket loans. The cost is estimated at £170m or about 4% on the pay bill. The claim is estimated to be worth on average about 14% on basic pay rates plus 1% for leave improvements. The unions formally requested arbitration and this will probably take place 19 April. Primary and Secondary Teachers E & W (1 April - 460,000) have rejected an offer of 3.4% on the paybill in response to a claim for increases in line with inflation. The employers have stated that the offer cannot be improved but are divided over referral to arbitration. Industrial action is taking place in some areas. Revised offer of 3.9% to 6.7% (4% on paybill) has been rejected by Primary and Secondary Teachers (Scot) (1 April - 58,000). It has been agreed to refer the claim to arbitration. Local Authority Building Trade Operatives (6 November - 76,000) have rejected an offer of £4.60 (5.5%) on basic rates - estimated at about 4% on earnings - and are seeking increases of up to 7.8% on rates, the same as LA manuals. Next meeting 25 March. The Review Body for Doctors and Dentists (1 April - 85,000) is expected to report in April. The doctors and dentists are claiming 12½% and 13% respectively, 3% of which is due from the previous award. NHS Nurses and Midwives (1 April - 492,000) have submitted a claim for a 12% increase in basic rates, reduced hours and other benefits. An additional £63 million above the 4% target figure has been made available. Negotiations have opened on the basis of 4% for all grades plus improvements in incremental scales for clinical nurses and those nurses in teaching. Next meeting 23 March. NHS Ancillaries (1 April - 210,000) and NHS Admin and Clerical (1 April - 125,000) have presented similar claims to that for nurses. Unions have rejected 4% offers. No extra cash has been made available for these groups.

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20 In the PRIVATE SECTOR, all 21 areas of the Road Haulage Industry (Nov/March - 97,000) have been made offers in the range of 5.6% to 8.6% on basic rates. Eighteen areas have accepted the offers and the other areas are still negotiating. An improved offer of 8.5% plus holiday improvements for London Clearing Bank Clericals (1 April - 146,000) has been accepted by the Clearing Banks Union but is to be put to a ballot of members by the Banking, Insurance and Finance Union. Scottish Banks Clericals (1 April - 17,000) have recorded a failure to agree in their negotiations following rejection of a 7.5% offer. The claim is for a 15% increase. Next meeting 22 March. Unions on behalf of Newspaper Publishers Association Production Workers (1 January - 33,000) have balloted members on a 5% 'final' offer. NATSOPA, NGA and SLADE have accepted. SOGAT and EETPU have rejected the offer. SOGAT may ballot members again. British Printing Industries Federation Employees (24 April - 128,000) have submitted claims for substantial increases, an extra week's holiday and other benefits. An improved offer of £5.50 to £6.25, according to grade, is to be put to union members. All three unions involved are recommending acceptance. A settlement is expected for Biscuit Manufacture (1 January - 39,000). Agreement on an offer of 8.3% plus 1 extra day's holiday has been reached subject to ratification by the unions.

#### PRICES AND EARNINGS INDICES

##### PRICES

21 In February the year on year increase in retail prices was 11% compared with 12.0% in January.

##### EARNINGS

22 In January the year on year increase in average earnings for the whole economy was 10.8% compared with 10.1% in December; this reflects the underlying position as temporary factors broadly offset each other.

##### REAL DISPOSABLE INCOME

23 The real disposable income - taking account of the changes in earnings, prices and taxes - of a married man on average adult male earnings with a non-working wife and two children under 11 (with no other tax liabilities or allowances and not contracted out of the State Pension Scheme) fell by about 3½% in the year to December.

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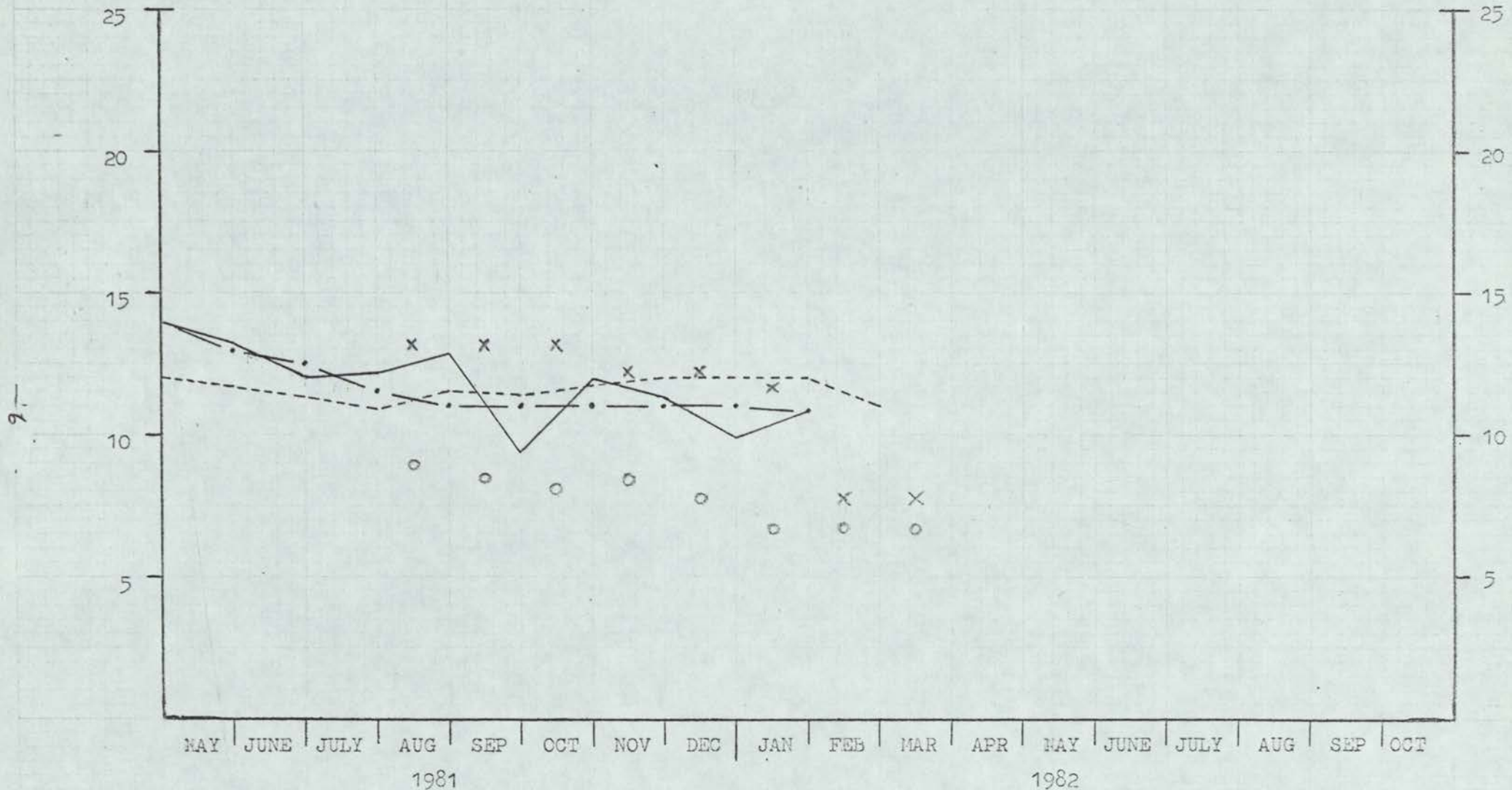
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APPENDIX 1

TRENDS IN EARNINGS AND PRICES

% increase on year earlier

%





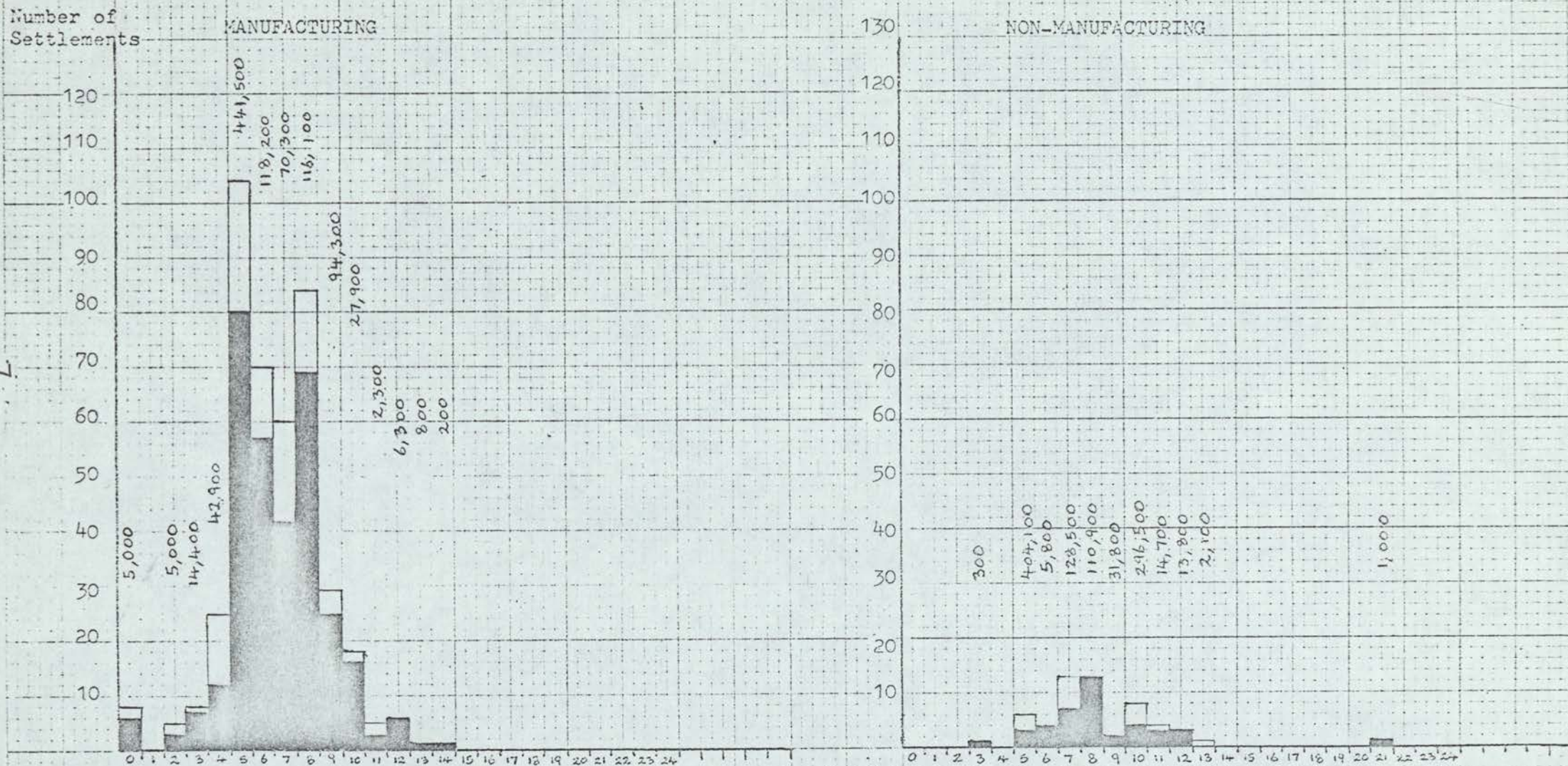
- Retail Price Index
- Average Earnings Index (whole economy)
- ..... Underlying rate of increase in earnings
- x Public Sector Settlements )
- o Private Sector Settlements )

Cumulative Average Increase in Earnings

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DISTRIBUTION OF SETTLEMENTS IN THE PRIVATE SECTOR BY LEVEL OF SETTLEMENT FROM 1 AUGUST 1981

KEY:  SETTLEMENTS UP TO THE LAST PAY BRIEF  
 SETTLEMENTS SINCE THE LAST PAY BRIEF



LEVEL OF SETTLEMENT (ROUNDED TO THE NEAREST WHOLE NUMBER)

NOTE - THE NUMBER OF WORKERS (ROUNDED TO THE NEAREST HUNDRED) AFFECTED BY THE SETTLEMENT IS GIVEN ABOVE THE APPROPRIATE INDICATOR.