'Two years of restraint does not earn a passage off the hook'

Howe warning that pay rises may be non-existent

Times 7 JUL 1982

By Donald Macintyre, Labour Correspondent

The Government is likely to abandon public service pay targets altogether in a campaign to persuade workers that they should not expect an automatic fixed increase ~~at all next year~~.

Sir Geoffrey Howe, Chancellor of the Exchequer, yesterday put down his first public marker for the 1982-83 pay round with a toughly-worded warning that there should be "substantially lower pay rises than last year".

Sir Geoffrey insisted that the need to contain inflation "in an ideal world might well mean no pay increases at all", and appealed to workers to accept lower increases than last year in order to protect and provide jobs.

In a speech clearly designed to begin the softening up process in advance of pay negotiations opening next autumn, the Chancellor said that "because people have had two years of relative restraint they have not earned a passage off the hook". Both employers and employees had been tempted by that "myth".

Speaking to industrial correspondents in London, he added: "They should not ignore the fact that falling pay settlements over the past two years have not meant a fall in real earnings because inflation has declined."

Sir Geoffrey dropped for the first time the broadest of hints that the Treasury is unlikely to follow its two-year-old practice of announcing a cash limit "pay factor" in advance of the pay round as it did with its 4 per cent target last September.

He said after his speech that the question of whether to announce a pay factor this year had not been decided, but added: "We may find it most sensible not to offer a pay factor for public service spending next year."

The Chancellor gave a warning that the Government's strategy for the coming round meant "earnings rising by less than our competitors, and I said last year that they rose by twice those in the United States, Germany and Japan", and that settlements should take into account the fact that price inflation was falling.

In a key passage, he added that a large number of working people — perhaps the majority — had never gone without an annual pay rise.

"For them, the pay round is expected to provide an automatic increase, delivered as it were with the milk. And as a result they have come to feel — and we can scarcely blame them — there is no connexion between their performance and their pay."

If the Government decides not to announce a specific target for public service pay this year, some union leaders may see the decision as vindication of their argument that the existing 4 per cent norm has been visibly broken by local government workers and other groups, and that the Treasury is now anxious not to fall into what they see as the fatal decision of the Callaghan government to set a rigid norm for a third year.

Treasury officials also appear to believe, however, that by setting no target at all the Government can avoid setting a norm for unions to take as a starting point rather than a ceiling.

He acknowledged that "wage drift" had dragged private sector earnings last year to between 3 and 4 per cent over the level of actual settlements and that settlements themselves tended to end up higher than originally planned.

Sir Geoffrey said that spending programmes based on the 6 and 4 per cent limits had "by and large" been implemented.

Creating more jobs in the economy meant planning for very low pay rises indeed, he said.

An early signal of union anger at the tone of Sir Geoffrey's speech came with a declaration from Mr Arthur Scargill, President of the National Union of Mineworkers, that "the Government's philosophy now transcends reductions in real wages to reductions in actual wages".

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