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FM WASHINGTON 012330Z OCT 79

TO PRIORITY F C O

TELEGRAM NO 2948 OF 1 OCTOBER

INFO EEC POSTS, BELGRADE (FOR UK DELEGATION TO IMF/IBRD ANNUAL MEETINGS)

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U.S. WAGE AND PRICE POLICY.

THE ADMINISTRATION HAS ANNOUNCED CERTAIN CHANGES IN THE GUIDELINES FOR THE SECOND YEAR OF THE PROGRAMME STARTING 1 OCTOBER 1979, AND THE CREATION OF PAY AND PRICE COMMITTEES.

PAY

2. THE PAY GUIDELINE FOR THE COMING YEAR WILL ALLOW A ONE PER CENT CATCH-UP FOR THOSE WORKERS WHOSE PAY INCREASE DID NOT EXCEED 7 PER CENT IN THE PREVIOUS YEAR. THIS IS DESIGNED TO COMPENSATE WORKERS WHO HAVE NOT BENEFITTED FROM COST OF LIVING ALLOWANCES (C.O.L.A.) WHICH, LEGITIMATELY UNDER THE GUIDELINES, HAVE TAKEN THE PAY INCREASE OF OTHER WORKERS OVER 7 PER CENT.
3. A PAY COMMITTEE IS TO BE ESTABLISHED. IT WILL HAVE 15 MEMBERS, 5 FROM EACH OF BUSINESS, LABOUR AND THE GENERAL PUBLIC. JOHN DUNLOP, WHO RAN THE COST OF LIVING COUNCIL UNDER NIXON, AND WAS LABOUR SECRETARY UNDER FORD WILL BE CHAIRMAN. THE AFL-CIO WHICH IS CURRENTLY COMMITTED TO PARTICIPATE WILL PROVIDE PROBABLY 3 MEMBERS. NO REPRESENTATIVES OF BUSINESS HAVE YET BEEN NAMED.
4. THE DUTIES OF THE COMMITTEE ARE (A) TO SUBMIT BY 31 OCTOBER 1979 RECOMMENDATIONS FOR MODIFICATIONS, IF ANY, TO THE PAY STANDARD, THE INFLATION ASSUMPTION FOR C.O.L.A., THE THRESHOLD FOR THE LOW PAY EXCEPTION, AND THE ADJUSTMENT FOR WORKERS NOT COVERED BY COLA. (B) GENERALLY TO COMMENT ON INTERPRETATION OF THE PAY STANDARDS AND NON COMPLIANCE DECISIONS OF THE COUNCIL ON WAGES AND PRICES.
5. THE CHARTER OF THE COMMITTEE SUGGESTS THAT IT WILL BE A CONTINUING BODY BUT OUR DISCUSSION WITH THE RELEVANT WHITE HOUSE STAFF (WHERE THE COMMITTEE IDEA HAS BEEN DEVELOPED) INDICATE THAT THE BATTLE OVER THE POWERS OF THE COMMITTEE IS NOT YET OVER, AND WILL BE CONTINUED WITHIN THE COMMITTEE ITSELF. ITS CONTINUING ROLE (IF ANY) WILL BE PART OF THE RECOMMENDATIONS TO BE MADE BY 31 OCTOBER. AS YET THE COMMITTEE IS ADVISORY, AND THE PRESIDENT WILL HAVE DISCRETION TO REJECT OR ACCEPT THE RECOMMENDATIONS. UNTIL THE PRESIDENT HAS TAKEN THAT DECISION THE PAY GUIDELINES FOR THE COMING

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YEAR ARE UNDECIDED.

6. BEHIND THE PAY COMMITTEE DEVELOPMENT LIE WEEKS OF INTENSE NEGOTIATIONS BETWEEN THE ADMINISTRATION AND THE AFL-CIO, AND A FURTHER RESULT OF THIS IS A QUOTE NATIONAL ACCORD BETWEEN THE ADMINISTRATION AND THE AFL-CIO LEADERSHIP UNQUOTE. THE PURPOSE OF THE ACCORD IS TO ESTABLISH PROCEDURES FOR CONTINUING CONSULTATIONS, GIVEN BASIC AGREEMENT THAT FIGHTING INFLATION IS TOP PRIORITY. THE TERMS OF THE AGREEMENT ARE FULL OF GENERALISED VIRTUE, E.G. NEED FOR DISCIPLINED FISCAL POLICY, RESPONSIBLE BEHAVIOUR WITH RESPECT TO PAY AND PRICES, REDUCED DEPENDENCE ON IMPORTED OIL. THE MORE PARTICULAR INTERESTS OF THE AFL-CIO PRESUMABLY SHOW THROUGH IN THE ITEM WHICH SAYS THAT IF THE RECESSION DEEPENS WE MUST BE PREPARED WITH APPROPRIATELY SCALED RESPONSES THAT HAVE BOTH ANTI-INFLATION AND ANTI-UNEMPLOYMENT CHARACTERISTICS. BUT THIS IS SURROUNDED BY CAUTIONARY REMARKS, E.G. RECOGNISING OPERATIONAL LIMITS AND CONGRESSIONAL CONCERNS.

7. OF ITSELF THEREFORE THE ACCORD APPEARS TO BE LITTLE MORE THAN A GESTURE, THOUGH MARKING SUBSTANTIAL EFFORT BY THE ADMINISTRATION TO GET CLOSER TO ORGANISED LABOUR.

PRICES

8. THE ADMINISTRATION HAVE PROMULGATED PRICE STANDARDS, COVERING THE TWO YEAR PERIOD STARTING 1 OCTOBER 1978. COMPANIES ARE ASKED TO LIMIT THEIR PRICE INCREASES IN THAT PERIOD TO THE PRICE INCREASE IN THE 1976-77 BASE PERIOD. THUS THOSE COMPANIES WHICH COMPLIED WITH THE EXPIRING GUIDELINE AND HELD PRICES ONE HALF PER CENT BELOW THE AVERAGE INCREASE OF THE BASE PERIOD WILL BE ALLOWED IN EFFECT A ONE PERCENTAGE POINT CATCH UP. THERE ARE ALSO PROVISIONS TO TIGHTEN UP ON THE PROFIT MARGIN STANDARD WHICH IS AN ALTERNATIVE WHICH COMPANIES CAN USE INSTEAD OF THE PRICE BASED STANDARD.

9. A PRICE COMMITTEE IS TO BE ESTABLISHED WITH FIVE MEMBERS, REPRESENTING QUOTE THE GENERAL PUBLIC UNQUOTE, AND CHOSEN BY THE PRESIDENT. THE COMMITTEE IS INTENDED TO CONSIDER MODIFICATIONS TO, OR REVISED INTERPRETATIONS OF, THE PRICE STANDARDS. NO APPOINTMENTS HAVE BEEN ANNOUNCED.

HENDERSON

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