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ECONOMIC AND SOCIAL POLICY PRESENTATION  
MINISTERIAL MEETING, FEBRUARY 4, 1985

This note reviews the action taken so far and the decisions required in the light of the last Ministerial meeting on January 15, 1985.

Background Note

Three background notes have been circulated so far this year on:

- public investment and tax reduction
- public expenditure
- economic plus points (which it is intended to update once a month)

Two additional background notes are submitted for approval and attached at Annexes I and II on:

- pay bargaining - the need for moderation in pay settlements
- the Government's education performance (which was criticised at the Congregation of Oxford University).

Monitoring

Ministers will wish to monitor the effectiveness of the overall campaign. This will be easier when groups of MPs have been established by Departments and are fully operational, and when Regional Directors of the COI are reporting regularly to the Chief Press Secretary.

In the meantime, there is some evidence from the media that the Government is seen to be more concerned to show it cares

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about people, and especially the unemployed, and is arguing the case for tax cuts rather than major injections of public investment as a means of lowering unemployment.

On January 31, the Guardian's political correspondent noted:

"Senior Ministers close to Mrs Thatcher are now mounting a strong counter-offensive against Backbenchers.... who have argued that further increases in tax thresholds should take second place to spending on urgent public works programmes."

Groups of MPs

Ministers agree that the groups of supportive Backbench MPs to be established by Departments are the key to the successful prosecution of the campaign in the press and on radio and television. They and the Deputy Chief Whip will wish to report on the progress made in forming groups and the work of any groups to date.

MPs/Media/Geographical Coverage

The Paymaster General is advising on the formation of groups of MPs with the help of a computerised system of matching MPs to media outlets and geographical areas. He will wish to report on the progress made with this computerised determinant and liaison with Departments and the Chief Whip's Office.

COI

The Chief Press Secretary met Regional Directors of the COI on January 23 to enlist their support for the campaign. The Directors welcomed the opportunity to take part and expressed the hope that they might assist more Ministers during their official visits to the regions. They saw considerable value in having background notes available for briefing editors, leader writers and correspondents.

Arrangements are in hand to circulate background notes to the Regional Directors.

Wales, Scotland

The Lord President has consulted the Secretaries of State for Wales and Scotland about their involvement in the campaign. Their offices are to be represented on the official working group.

The Period Ahead

Attached at Annex III is a summary of the main known events to Easter.

Summary

Ministers are invited to:

- i. consider the progress of the campaign so far, and the use made of the early background notes;
- ii. approve the draft background notes at Annexes I and II;
- iii. receive oral reports from Ministers, the Deputy Chief Whip and the Paymaster General on the formation of groups of MPs and from the Paymaster General on the computerised matching system for MPs, media and geographical coverage;
- iv. agree to hold a further meeting in about two weeks' time.

BERNARD INGHAM

31 January 1985

PAY BARGAINING  
BACKGROUND NOTE

The latest unemployment figures afford an opportunity to emphasise the connection between pay and jobs.

The following points may be made:

- i. pay bargainers must face up to the link between pay and jobs. Higher pay settlements increase costs and make it less profitable to employ labour: so fewer people are employed;
- ii. there is no truth in the assertion that those in work have made sacrifices and have earned some compensation. We have one of the strongest recoveries since the war. The benefits have gone in higher living standards for those in work. Average earnings have kept well ahead of retail prices, and also the tax and price index, over the life of this Government;
- iii. but the benefits have not been shared by those out of work. The high wage settlements which have benefited those with jobs have kept others out of work;
- iv. it is nonetheless argued that companies can afford to pay more in wages because their profits are rising. But this improvement needs to be maintained to provide for investment;
- v. higher pay claims are not justified by the cost of living; inflation is down to its lowest level since the 1960s and the Government aims to get it even lower;
- vi. but, it is argued, we should reduce the number of hours worked - the standard working week - to enable more people to be taken on. Unfortunately it doesn't work like that - unless wages are reduced in line. All that shorter hours for the same pay produce are higher costs which destroy instead of create jobs;

vii. there is no getting away from it: the basic link between pay and jobs is clear. And research by outsiders as well as the Treasury shows that slower growth in real pay produces higher employment. It suggests that if pay increases across the economy are moderated, so that real wages are 1% lower than otherwise, there will over a few years be anything from 0.5 to 1% more jobs - in round figures between 110,000 and 220,000 jobs;

viii. moderation in all things is good for you. But moderation in pay by those at work is especially good for the unemployed. It helps to provide jobs for them.

As Tom King said on January 31:

"Good sense and moderation in pay bargaining by those in work would be the biggest single contribution to achieving a real impact on the present grave level of unemployment."

EDUCATION EXPENDITUREBACKGROUND NOTE

The Congregation of Oxford University declined to offer the Prime Minister an honorary degree on the grounds of the damage this Government has inflicted on education.

The following points may be used to rebut the charge against the Government's performance on education policy:

- i total expenditure on education and science has increased by 1 per cent in real terms - that is, allowing for price increases  
- between 1979-80 to 1984-85.
- ii over the same period, pupil numbers have fallen by 12 per cent.
- iii spending per pupil has risen by 16 per cent (primary) and by 8 per cent (secondary) since 1979-80, from £672 to £775 for primary and from £1,030 to £1,115 for secondary.
- iv the pupil/teacher ratio has fallen from 18.9 pupils per teacher in January 1979 to 17.9 pupils per teacher in January 1984, and the January 1985 figure is projected to be 17.7.
- v teachers' pay has risen slightly more than prices - so they have secured a modest real improvement in their salaries.
- vi the participation rate for under-5s in nursery education is now 42 per cent of all three and four year-olds compared with 39 per cent in 1979-80; in plain figures, the number of under-5s in nursery education is up from 429,000 in January 1980 to 495,000 in January 1985, a 15 per cent increase.

- vii the number of full-time and sandwich home students in higher education in Great Britain (provided by both the public sector and universities) rose from 448,000 in 1978-79 to 520,000 in 1983-84, an increase of 16 per cent.
- viii the participation index for higher education - defined as the number of initial home entrants to higher education under 21 as a percentage of the average number of 18 and 19 year-olds in the population - is up from 12.6 per cent in 1978-79 to an estimated 13.8 per cent in 1985-86.
- ix the science budget, about which the Oxford Congregation particularly complained, has shown a real increase of 6 per cent from £340m in 1979-80 to £550m in 1984-85. Over the next three years, science in the research councils and the universities will receive an additional £45m in cash, over previously published plans.
- x Oxford is not starved of public income; its income from UGC grants, home student fees and college fees has each year been higher in real terms than the figure for the Government's first year in office - 1979-80.

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ECONOMIC AND SOCIAL POLICY PRESENTATION: DIARY 1985 TO  
EASTER

The major issues during this period will be:

- prescription and dental charges
- Budget (March 19)
- Review of labour market policy, job support and enterprise culture
- Coal strike (first anniversary, March 6)
- Pay settlements
- DHSS review of supplementary benefit, housing benefit, children's and young people's benefit, and pensions
- Supply of drugs under NHS
- Ratecapping; GLC/MCC abolition; local authority capital expenditure
- Urban programme allocation
- Heathrow/Stansted/airports policy
- BBC licence fee
- VE Day Celebrations

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31 January 1985