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cc Masts
Housing Mortgage Rates

NOTE OF A MEETING HELD IN THE CABINET ROOM, 10 DOWNING STREET
AT 1130 ON TUESDAY, 26 JUNE 1979

Present

The Prime Minister (in the Chair)	Sir John Hunt
The Home Secretary	Mr. Le Cheminant
The Foreign and Commonwealth Secretary	Mr. Wolfson
The Chancellor of the Exchequer	Mr. Whitmore
The Secretary of State for Defence	Mr. Sanders
The Lord President of the Council	
The Secretary of State for Employment	
The Chancellor of the Duchy of Lancaster	
The Chief Whip	

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The PRIME MINISTER said that she had called the meeting to take stock of the situation on MPs' pay and the threatened increase in mortgage rates, before her departure for Tokyo.

MPs' Pay

The CHIEF WHIP reported on the present state of feeling in the House of Commons. The views of Conservative backbenchers appeared to have been somewhat modified by the adverse criticism in the Press and the country of the initial attitude adopted by the House of Commons to the Government's proposals on MPs' pay. There was however, he judged, no chance of bringing Members to accept staging of their pay award over 2 years without a forthcoming attitude by the Government on the question of keeping MPs' pay up to date from now on. At a dinner on the previous evening some senior members of the Conservative 1922 Committee and the Parliamentary Labour Party had agreed that a two-stage implementation over 18 months, with 50 per cent paid now and 50 per cent in November 1980, coupled with linkage, would be acceptable to them. Few Members however appeared to know what they meant by "linkage".

The PRIME MINISTER said that Mr. Du Cann, the Chairman of the 1922 Committee, had been to see her on the previous evening

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and had made a proposal on the lines of that described by the Chief Whip. It was apparent that he had no clear view on how "linkage" should be interpreted. Her own view was that the Cabinet must stick to the decisions and principles it had already adopted. Public opinion was on its side and a retreat in the face of pressure in the House of Commons would damage the Government's credibility. This meant in particular that the Government should stick to its proposal that the present award to MPs should be paid in three equal stages spread over two years and that no concessions should be made which went beyond what the Government had already given to other groups. It was relevant, however, that with the exception of rejecting the Boyle proposal that MPs' pay might be indexed to the appropriate part of the New Earnings Survey, the Cabinet had expressly reserved its position on "linkage". A solution would need to be found within these parameters. It had also become apparent that some junior Ministers were suffering particularly from the Treasury ruling that all Ministers were deemed to reside in London even when they did not do so. This meant that junior Ministers living in the country had lost their previous entitlement to the special allowances made to MPs in similar circumstances.

In discussion the following points were made:-

(a) Backbenchers on both sides of the House were afraid that implementation of their pay award might be interrupted by a pay freeze. Those who had served in the previous House of Commons were conscious that they had been badly treated by the then Government and that their pay had been held very far below what it ought to have been. And there was concern that the Government's proposals on staging were less generous than those recommended by Boyle.

(b) Unless the Government made a substantial move towards House of Commons' opinion there was a risk that the House would amend the Government's Motion and impose its own solution. No Government could welcome defeat, especially when its own Members voted against it. On the other hand it was by no means certain that defeat was inevitable.

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Members could be expected to be reluctant openly to vote themselves a pay increase against the Government's advice. Some of those pressing for an improvement in the Government's proposals were no doubt concerned to shift the onus for a substantial pay increase on to the Government's shoulders.

(c) It would be within the principles laid down by Cabinet for the second, but not third, of the proposed stage payments to MPs to be updated, because this is what had been done for both the Doctors and Dentists and the other TSRB groups. In both cases the second stage of their 1978 awards had been updated by the Government this year though no promises had been made about further updating next year when the third stage payments were due.

(d) It was relevant that the Boyle Committee regarded the linkage of MPs' pay to an outside indicator as very much a second best solution and one appropriate only to the intervals between major reviews which they envisaged as taking place every four or five years. Their recommendation for the pay of Ministers excluded linkage but envisaged biennial reviews. One way of avoiding linkage - with its potentially dangerous effects on wage negotiations generally - might be to institute more frequent reviews for MPs' pay on the lines recommended for Ministers.

The PRIME MINISTER, summing up the discussion, said that the group were agreed that there could be no retreat from the position already adopted by the Cabinet. On the other hand there were assurances and arrangements which might be offered which could increase the acceptability of the Government's proposals to Parliament. Thus it might be possible to ensure that the Motion to be put to the House on MPs' pay would guarantee the implementation of the Boyle recommendations irrespective of whether there were a pay freeze - though such a freeze was very far indeed from the Government's intention. It would also be possible to undertake that the pay of MPs would be reviewed biennially by the TSRB. And it should be possible to find a means, perhaps through a special request to the TSRB, to update the second stage of

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implementation of the present proposals in June 1980. Such a special updating would accord with the treatment given to the Doctors and Dentists and others. On the other hand it would not be possible to guarantee to the House that the third stage of the present award due in 1981 would be also updated or that a new biennial review conducted in 1981 would be implemented immediately. To do this would be to go beyond the promises made to others and would breach the principle adopted by Cabinet. Those concerned might now float with backbench Members of Parliament, without commitment, the ideas which had emerged from the group's discussion so that a final decision could be taken by the Cabinet after her return from Tokyo. In addition, the Chancellor of the Exchequer should explore urgently the implications of changing the present rules which debarred junior Ministers whose homes were out of London from the allowances payable to Members of Parliament in the same circumstances. The group noted, too, the similar problem which could arise for Ministers in the House of Lords who were debarred under present rules from qualifying for the overnight allowance payable to other Peers. The Lord President of the Council should look at this further. The Cabinet had already agreed that the problem of the reimbursement of Parliamentary expenses necessarily incurred by Ministers and office holders in the House of Lords should be referred to the Boyle Committee for consideration. Finally the Lord President of the Council should examine and report to her on two other points which had emerged in the group's discussion, namely the arrangements governing the determination of the pensions of former Prime Ministers and Speakers of the House of Commons; and the anomaly which appeared to have arisen whereby some retired servants of the House of Commons were now entitled to pensions larger than the salaries currently in payment to their successors.

The Group:

took note with approval of the summing up of their discussion by the Prime Minister and invited the Ministers concerned to proceed accordingly.

/Mortgages

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Mortgages

The PRIME MINISTER said that she was particularly concerned that the present high level of the Minimum Lending Rate should not lead to an increase in the rate of interest charged by Building Societies on mortgages. It would be highly damaging to the Government's standing if mortgage interest rates now rose to record levels. The Chancellor of the Exchequer was naturally concerned to avoid a new major claim on the contingency reserve and had a proper concern for the maintenance of monetary discipline. But a solution would have to be found. The subject of interest rates was not suitable for discussion in full Cabinet. She would arrange for the matter to be considered by a small group of senior Ministers after her return from Tokyo and before the relevant meetings of the Building Societies Association due to be held in mid-July. The Chancellor of the Exchequer already had in hand the preparation of material on which the discussion could be based.

The Group:

took note.