

Ref. A04680

PRIME MINISTER

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Civil Service Pay

(C(81) 14)

BACKGROUND

The industrial dispute is now in its fifth week. There are no signs of weakening by the Civil Service unions. The dispute is ugly in the Inland Revenue; elsewhere support is not growing much, but it is not diminishing either. Under the surface damage is being done. I fear that, if the dispute drifts on, the atmosphere will become more sour. The Government has widespread political support; in order to retain that support, and to give the moderates some sign of hope and something to respond to, I believe that the Government needs now to be seen to make a constructive move. I do not think that this can or should wait until you get back from India and the Gulf. If it is not to wait, you will want to be sure before you go that a proper gameplan has been established. You will have discussed these matters with the Lord President and the Chancellor of the Exchequer before the Cabinet meets. Subject to whatever may have emerged from that discussion, there would seem to be three elements on which clarity is needed:-

- (a) Is it agreed that the time has come for some move? Does it matter if the dispute drags on into May?
  - (b) Is the Chancellor prepared to accept that the control of public expenditure has to allow for some room for manoeuvre in the determination of levels of pay (though not of course of the level of Government spending)?
  - (c) Who should control the tactics? Cabinet is too unwieldy (and too leaky) to devise or implement a tactical plan.
2. The Lord President's paper asks colleagues to endorse the framework for a final settlement with the unions set out in his paragraph 9: 7 per cent this year, an independent inquiry into the longer term, and negotiations plus, if necessary, arbitration for 1982. Colleagues may readily accept the first two proposals. But



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1982 is much more difficult - not least for the Chancellor. The Civil Service Department are convinced that, as things now are, it would require a binding commitment either to agree to arbitration if necessary or to accept the results of some linkage to bring the unions to call the industrial action off. But it is not necessary to go as far as that now. Even if something short of that would not win the trick, a proposal to the unions which included a long-term inquiry and a commitment to negotiate in 1982, with an indication of the factors which the Government would be ready to include in the negotiation - comparisons with movements of earnings in the private sector, recruitment and retention, job security - would attract moderate members of the staff and would make it more difficult for the unions to step up or even maintain the level of industrial action, and could well prove enough to break the logjam, and increase union willingness to look for a settlement.

3. Depending on the way the discussion goes, you may well wish tomorrow to seek Cabinet authority for the detailed conduct of the dispute to be left in the hands of yourself, the Chancellor of the Exchequer, the Lord President and the Secretary of State for Employment. Quite apart from the greater ease of handling, and quicker response, which such an arrangement would give, it would also avoid the necessity of having to circulate papers on this dispute widely to colleagues.

#### HANDLING

4. You will want to ask the Lord President to introduce his paper and then call for comments particularly from the Chancellor of the Exchequer and the Secretary of State for Employment.

#### CONCLUSIONS

5. The essential conclusions, I suggest, are:-

- (i) For or against the establishment of an independent inquiry to recommend the most appropriate long-term pay negotiation arrangements for civil servants.
- (ii) Remitting the detailed conduct of the dispute to a small group chaired by yourself.

6. It would then be enough simply to take note of the other points made in discussion as general guidance for the smaller group.

8th April, 1981

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ROBERT ARMSTRONG

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