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E(80) 20th Meeting

COPY NO 55

CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 17 JUNE 1980 at 9.45 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Item 2)

Earl of Gowrie
Minister of State
Department of Employment

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. PUBLIC SECTOR PAY

The Committee considered papers by the Chancellor of the Exchequer (E(80) 46), the Lord President of the Council (E(80) 48 and 53), the Central Policy Review Staff (E(80) 49, 54 and 55) and the Secretaries (E(80) 56). Their discussion and conclusions reached are recorded separately.

The 17,000 employees of Ferranti should have security of employment. He would consider the case for a reserved agreement to this. In the meantime he would leave open the options for disposing of the shareholding.

The Prime Minister, speaking by a short discussion, said that she would discuss later with the Secretary of State for Industry and the other Ministers concerned his proposals for a reserved agreement. Proposals for the sale would be discussed by the Sub-Committee on Disposal of Public Sector Assets on the basis of E(80) 56. In the meantime in the debate on 19 June the Secretary of State should make clear that the options for the method of disposal were still open.

The Committee -

Took note, with approval, of the Prime Minister's coming up of their discussion.

Cabinet Office
19 June 1980

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2. FERRANTI

THE SECRETARY OF STATE FOR INDUSTRY said that the Opposition had put down a motion for a supply day debate on 18 June on the disposal of the National Enterprise Board's holding in Ferranti. The terms of the motion could be read as implying a commitment to ensure that, following the sale the 17,000 employees of Ferranti should have security of employment. He would consider the case for a reasoned amendment to this. In the debate he would leave open the options for disposing of the shareholding.

THE PRIME MINISTER, summing up a short discussion, said that she would discuss later with the Secretary of State for Industry and the other Ministers concerned his proposals for a reasoned amendment. Proposals for the sale would be discussed by the Sub-Committee on Disposal of Public Sector Assets on the basis of E(DL)(80) 8. In the meantime in the debate on 18 June the Secretary of State should make clear that the options for the method of disposal were still open.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion.

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19 June 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 20th Meeting Minutes, Item 1
TUESDAY 17 JUNE 1980 at 9.45 am

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PUBLIC SECTOR PAY

Previous Reference E(80) 18th Meeting Minutes

The Committee considered memoranda by the Central Policy Review Staff (CPRS) summarising the main issues (E(80) 55) and discussing possible approaches to the 1980-81 pay round in the public sector (E(80) 49 and 54); by the Lord President of the Council (E(80) 48 and 53) on Civil Service pay and his proposals for improvements in the pay research system; and by the Chancellor of the Exchequer (E(80) 46) on public sector pay generally; and a Note by the Secretaries (E(80) 56) covering a Note by Officials on the factual background to the next pay round in the public sector.

THE PRIME MINISTER said that it was essential to take decisions on public sector pay settlements in the coming round against the background of the prospects for industrial output. The latest index of industrial production showed decreases in the manufacturing sector at a time when average earnings were 21.2 per cent higher over the year. Such increases in wages were at the expense of profits, and of the capital investment necessary to improve productivity, and the resulting inflation led to the devaluation of savings. In this situation high public sector pay increases could only be at the expense of the productive private sector. The Government had to have regard to the very considerable resentment in the private sector, and particularly on the part of smaller firms, to a number of the recent public sector settlements.

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MR IBBS said that the CPRS advised that the Government's objective should be to achieve the lowest possible settlements in the coming round which would avoid unsuccessful confrontations and which did not create substantial catching-up problems later. It might be possible to achieve this by the declaration of tight cash limits and the determination to stick to them. Indeed, if Ministers thought that such a policy could succeed, it would be the best course. If it were judged to carry too high a risk the CPRS suggested the alternative for the public service set out in E(80) 54 whereby, as a temporary arrangement in the next round, groups would be given interim awards at the time of their total settlement dates followed by final settlements in July 1981 which would at most match the actual increases in earnings achieved by their pay research analogues or comparable groups in the pay year 1980-81. The settlements would thus reflect any deceleration in earnings over the next year in the private sector rather than the higher earnings in the period preceding the public sector settlement dates. In this way it would deal with the present problems of the time lag in pay research and Clegg-type comparability and of the uncertainty of the course of private sector settlements over the coming year. By tying public sector pay increases closely to the success or failure of the private sector it would also remove any possibility of the private sector claiming that the Government was elevating the level of public sector settlements at their expense. But the cash limits for pay would have to be set subject to later adjustment in the light of final settlements.

THE LORD PRESIDENT OF THE COUNCIL said that he remained of the view that so far as the non-industrial Civil Service - where the Government was the direct employer as well as the paymaster - was concerned, the Government should improve the pay research system and then set cash limits to reflect the hardest bargain which could be negotiated on the pay research evidence. He had set out in E(80) 55 his recommendations for improvements in the pay research system. Some of these changes called for consultations with the unions and others for negotiation. His proposed improvements were designed to ensure, and to be seen to be ensuring, that Civil Service pay settlements were not leading those in the private sector. The alternative of imposing a tight cash limit, well below the likely outcome which these revised arrangements might indicate, would be highly damaging and costly. Small numbers of

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Civil Servants were able to take industrial action which could, for example, stop the paying of family allowances and of pensions. Even if Civil Servants pay could be kept down in the next round, past experience showed that arbitrary limits led within two or three years to irresistible pressure for a major catching up settlement. In this situation it was not worth fighting a losing battle in order to reduce settlements by perhaps 2 or 3 percentage points. Moreover, he could not negotiate the proposed changes in the pay research system if he had to tell the unions that, whatever the outcome of the pay research on the revised basis, the settlement would be determined by a tight cash limit and that they would be denied the right to arbitration.

THE CHANCELLOR OF THE EXCHEQUER said that he disagreed with the proposals put forward by the Lord President and by the CPRS. The Government could not allow comparability, even if the system were to be improved, to remain entrenched as the decisive factor in reaching settlements on public sector pay. It should continue to be taken into account in negotiations, but settlements ought to be determined by the cash limits. In the coming pay round the Government had to bring about a major change in expectations and a substantial downward step in public sector pay beyond what might be achieved from relying on comparability. The private sector could not be left to bear the whole brunt of the attack on inflation. Cash limits in the order of 15-20 per cent would not be acceptable: the limit had to be lower than the 14 per cent on Civil Service pay settlements in the 1979-80 round. If the Government could not contain public sector pay at levels consistent with this, the alternative was further cuts in public expenditure and increase borrowing and taxation. He recognised that tight cash limits could lead to serious difficulties and confrontations, but the Government had to be prepared to fight in defence of its economic strategy.

In discussion the following points were made -

- a. The CPRS's proposal in E(80) 54 was attractive in that it related public sector pay to current rather than past private sector settlements. It might, however, be criticised as discriminating against those groups, particularly in the National Health Service (NHS) which had early settlement dates and so would have to wait a relatively long time for

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for their final settlements. In any case it would probably be impracticable to negotiate a scheme on these lines in time for general adoption this year. But it should not be ruled out for consideration in the future, and need not be excluded as a potentially useful weapon for some parts of the public sector - for example, the nationalised industries - to use in their negotiations in the coming round.

b. The Lord President's proposals for improvements to the pay research system would be most useful and should be pursued. In addition the Lord President should consider how best to impart increased flexibility into the system to reflect supply and demand in the public sector labour market. He should also give favourable consideration to the proposals made by Lord Shepherd, Chairman of the Pay Research Unit Board (PRUB), that the Board should be given unqualified access to all PRU material, and should have a role in supervising the preparation of data by the PRU and its use in subsequent negotiations. The system should also take into account, in the selection of ^{EMPLOYEES} ~~analyses~~ or by other means, the greater job security in the Civil Service: at present the ~~analyses~~ ^{EMPLOYEES} selected were by definition those in employment, and the system did not take account of the risks and implications of redundancies in the private sector.

c. If cash limits, which had yet to be set, had to be the decisive factor in determining public sector pay, the Government would inevitably be faced with the problem of bridging the gap between the settlements possible under this constraint and those for which the unions would look following pay research or comparability. To some extent the gap would be reduced by improvements in the PRU system which were now to be sought. There was also some scope for bridging it by further reductions in manning though the scope for the latter might well be limited by the substantial manpower reductions to which the Government was already pledged. But the actual level of pay would also be at issue. Although it was too early to come to decisions about the actual level of cash limits it would be very important to set them at levels which were less than last year; it would also be important to take realistic account of the problems of negotiating settlements.

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d. Consideration should be given to the possibility of distributing the cash limits on Civil Service pay generally between individual Departments. Ministers would then be better able to manage their own Departments effectively and to choose their own priorities. But care would have to be taken to avoid indefensible inconsistencies between Departments and, if the idea were to be pursued, Ministers would need to consider it on the basis of a full analysis.

e. Although the Government had to take some general decisions on its broad approach to public sector pay it would be necessary to look at each case on its merits and to be prepared to operate flexibly. There was no point in fighting cases where there was no prospect of winning, or the costs were too high.

f. If there were to be any further increases in the price of North Sea oil the proceeds to the Government might be used to offset increases in Value Added Tax which would feed through to the RPI and so to wages. However, since the Government had already accelerated the Petroleum Revenue tax payments due to it, it was most unlikely that there could be any VAT reductions on this account.

THE PRIME MINISTER, in summing up this part of the discussion, said that the Committee ^{was} ~~has~~ ^{not} ~~intended~~ to adopt the CPRS's proposed approach set out in E(80) 54 as a general basis for dealing with the coming pay round. It was, however, an interesting idea, and might be considered again before a later round; it might even prove to be a useful weapon in securing settlements in some parts of the public sector, other than the Civil Service, in this round. It was generally agreed that the Lord President should pursue the improvements to the Civil Service pay research system set out in E(80) 55. In doing so he should also take into account the further suggestions made in discussion. The Committee were agreed that public sector pay settlements in the next round would have to be subject to cash limits, which should not be changed once they had been set, although the exact levels at which they should be set were for later consideration. Within this framework the Committee would need to look at the proposals for each major settlement as it came along. The Chancellor of the Exchequer, in consultation with the Lord President, should

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consider further the possibility of splitting the present cash limit on Civil Service Pay between Departments, but it was unlikely that this change, even if it proved practicable, could be implemented in the coming year.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.
2. Invited the Lord President of the Council, in pursuing the proposals in his memorandum E(80) 53, to take account of the further suggestions made in discussion for improvements to the pay research system.
3. Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, to report in due course to the Committee on the possibility of splitting the present cash limit on Civil Service pay between Departments.

THE PRIME MINISTER, summing up a short discussion on the pay of the Armed Forces said that the Committee agreed that the Government's commitment to maintain Armed Forces' pay at comparable levels with their civilian counterparts should stand. However, it might be possible, without reneging from this commitment, to tighten the terms of reference of the Armed Forces' Pay Review Board. The Committee would consider this further in the light of the memorandum which the Lord President of the Council would be circulating on the terms of reference of the various pay review bodies.

The Committee -

4. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the administrative and clerical, and scientific and technical, groups in the NHS regarded themselves as firmly linked for pay purposes with groups in the Civil Service. If Civil Service settlements were brought down, they would accept like treatment though there would be problems about translating into the NHS reductions in manpower agreed or imposed in order to bring a pay increase within a cash limit. He recommended keeping the Doctors' and Dentists' Pay Review Board

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in being though perhaps with amended terms of reference. At present there were no comparability arrangements for nurses or midwives. The Clegg Commission on Pay Comparability was now examining the possibility of constructing a basis for comparison which could be used to satisfy them that they were not falling behind. Even if the Clegg Commission were to be disbanded it was important that this work should continue.

THE PRIME MINISTER, summing up this part of the discussion, said that the Committee agreed that, as with the Civil Service, pay in the NHS would have to be subject to cash limits. The Committee agreed that the present work on a system of comparability for considering nurses' pay should continue; they would consider the outcome when it was available. The Committee would consider the terms of reference of the Doctors' and Dentists' Pay Review Board in the light of the Lord President's memorandum. Before the Committee resumed their discussion at a later meeting it would be helpful if the Home Secretary could discuss the pay of Prison Officers and of the Police with the Chancellor of the Exchequer.

The Committee -

5. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.
6. Invited the Home Secretary to discuss with the Chancellor of the Exchequer the pay of Prison Officers and the Police before they resumed their discussion of public sector pay generally.

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19 June 1980

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