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E(80) 18th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 5 JUNE 1980 at 4.15 pm

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 Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

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 George Younger MP
Secretary of State for Scotland

The Rt Hon Angus Maude MP
Paymaster General

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The Hon Adam Butler MP
Minister of State
Department of Industry

The Rt Hon Reginald Prentice MP
Minister of State
Department of Health and
Social Security
(Minister for Social Security)

Lord Strathcona
Minister of State
Ministry of Defence

Mr J R Ibbs
Central Policy Review
Staff

SECRETARIAT

Mr P Le Cheminant
Mr D J L Moore
Mr G D Miles

SUBJECT

PUBLIC SECTOR PAY

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PUBLIC SECTOR PAY

The Committee considered Memoranda by the Chancellor of the Exchequer (E(80) 46 and E(80) 47), a Note by the Lord President of the Council (E(80) 48) and a Note by the Central Policy Review Staff (E(80) 49). Their discussion and conclusions reached are recorded separately.

LIMITED CIRCULATION NUMBER
E(80) 46 AND E(80) 47
THURSDAY 3 JUNE 1980 at 4.15 pm

Cabinet Office

6 June 1980

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 18th MEETING MINUTES
THURSDAY 5 JUNE 1980 at 4.15 pm

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PUBLIC SECTOR PAY

The Committee considered Memoranda by the Chancellor of the Exchequer (E(80) 46 and 47) on public sector pay and on his proposals for a campaign of public education preparatory to the next pay round; by the Lord President of the Council (E(80) 48) on Civil Service pay; and by the Central Policy Review Staff (CPRS)(E(80) 49) commenting on the Chancellor of the Exchequer's proposals.

THE CHANCELLOR OF THE EXCHEQUER said that it was essential to reduce the level of public sector pay settlements if the Government was to ensure that its monetary targets affected the general level of inflation as soon as possible. Pay in the public sector had an influence on expectations and settlements in the private sector and the Government's attitude to it in the coming pay round would be crucial. In the public services directly controlled by the Government, the system of determining pay by comparability with the private sector was no longer acceptable in its present form. The methods of pay research were deficient, and the way that comparability worked meant that reductions in public sector earnings lagged behind those in private sector. Nevertheless, to abandon comparability altogether would be to run the risk that the public sector unions would make their own comparisons and put in unacceptably high claims based on slanted data. In his view the right course was to demote the status of comparability so that it survived as only one consideration in pay bargaining which would be taken into account in negotiations but which would not bind the Government. The decisive factor had to be cash limits and, for both central and local government, these

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should be set at levels implying a smaller increase in pay in 1981-82 than in 1980-81. Any gap between the settlements indicated by comparability studies and those possible within the cash limits would have to be dealt with in other ways. At the same time the practices and procedures of the various bodies involved in public sector pay, including the Review Bodies, should be amended to reduce the weight given to comparability in their work. The membership of those bodies should also be reviewed. Further consideration would also need to be given to the present procedures of determining Police and Fire service pay which were essentially index-linked. The Government's main influence over local authority pay should continue to be through tight cash limits on the Rate Support Grant. For the nationalised industries it would be necessary to use a variety of weapons: external financing limits; pressure on Chairmen to hold down settlements; the development of performance targets; and further references on efficiency to the Monopolies and Mergers Commission. This approach to public sector pay should be backed by an intensive campaign of public education and persuasion starting soon and aimed at lowering substantially the level of settlements in the coming pay round. If this were to be effective the Government would need to consider making an early move to break current inflationary expectations perhaps by its response to the two reports from the Top Salaries Review Body (TSRB) due later in the month - the one on the pay of Members of Parliament; and the other on the pay of senior civil servants, senior members of the armed forces, judges and Nationalised Industry Board members. Although such a course would cause considerable resentment, he considered that settlements here should be reached below the present rate of inflation.

THE LORD PRESIDENT OF THE COUNCIL said that he was not persuaded that the system of determining Civil Service pay should be changed to the extent proposed by the Chancellor of the Exchequer. A comparison between non-manual workers' earnings in the 1970s and the pay rates of the Administration Group of the Civil Service showed that holding back Civil Service pay did not of itself have a restraining influence on private sector earnings. Experience of pay restraint suggested that if settlements were held down below the levels suggested by comparability this would lead to a pay explosion in 2 or 3 years time. In the meantime he saw very little possibility of negotiating useful amendments to the Civil Service Pay Agreement if the unions were told that cash limits would be overriding, irrespective of comparability, and that they could have no recourse to arbitration. An approach to Civil Service pay on these lines could lead to

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extensive, and damaging, industrial action. The Committee should weigh the likely cost of particular policies before deciding to embark on them. In his view the right course was to negotiate early improvements to the pay research system and then to set cash limits reflecting the hardest bargain which could be negotiated on the pay research evidence.

MR IBBS said that the CPRS considered that the emphasis should be on reduced public sector settlements which would produce a sustainable downward trend. It was important to avoid lurches and very low offers which would produce damaging and unsuccessful confrontation. If the unions were to accept settlements implying a fall in their standard of living they had to be persuaded that these were both inevitable and fair. It would be a mistake to abandon comparability arrangements unless the alternatives were likely in practice to yield lower settlements. One possibility would be to confine settlements early in the pay round to moderate interim awards and to defer final settlement until a downward trend was apparent in the private sector. A carefully orchestrated education campaign was essential if attitudes were to be influenced.

In discussion the following were the main points made -

- a. It was common ground that the present system of pay research should be overhauled urgently. The CPRS's idea of interim settlements should be considered further.
- b. It was argued that to demote comparability to no more than a factor in pay negotiations would be to invite damaging and costly confrontation in the coming winter. The Government would risk getting the worst of both worlds. The comparability studies which would continue to be available would tell the unions what in their view they ought to be getting but they would then be denied those increases because of the cash limits. It was not clear that the gap between the pay settlements permitted by the cash limits and those indicated by comparability could be bridged. Much would depend on the size of the gap and no estimates were available to the Committee on this. It would be much more difficult in future to rely on staff cuts now that the Government had, as a separate exercise, entered into a commitment to reduce Civil Service numbers to 650,000 by 1985. There was also a danger in assuming that the

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current situation, in which settlements were still partly based on catching up, was typical. In the short term, and for the coming year, the right course was an approach on the lines recommended by the Lord President of the Council. At the same time a longer term review of the system of pay determination in the Civil Service, and other areas where the Government's responsibility was direct, should be set in hand. Among other things this should aim to restore to management direct control over the pay of their employees and to strengthen their negotiating capacity. Present arbitration procedures should be amended.

c. On the other hand, it was argued that, while a longer term review might be helpful, it was essential for the Government to take early positive action in order to influence the coming pay round. Otherwise, the medium term economic strategy would be seriously at risk. The Government could not put itself in a position in which its cash limits were other than overriding. But it should be possible to set these limits at a realistic level which left some room for manoeuvre and for bridging the gap between the increases possible within the cash limit and those which might be indicated by the improved comparability studies.

d. The Sub-Committee on Industrial Relations in the Civil Service (RCS) would shortly be considering the contracts of employment of civil servants and the scope for laying off employees during an industrial dispute. It was important to make swift progress on this.

THE PRIME MINISTER, summing up the discussion, said that the Committee would have to consider these issues further before reaching conclusions. It would be necessary to examine in more detail the practical consequences of the alternative approaches put forward by the Chancellor of the Exchequer and the Lord President of the Council, and to have further factual information relevant to the other major public sector pay settlements in the coming year. There should be further consideration of the CPRS's proposal for interim settlements. The Committee would wish to consider proposals for improvement of the present PRU procedures, which would be necessary whatever course was adopted, and for changes in the terms of reference and the membership of the Review Bodies. She would arrange for officials to undertake further work on these questions as a matter of urgency. The

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Committee would consider as soon as possible the proposals in the two TSRB reports which should be available shortly. They would consider at a later stage, and in the light of their decisions on the approach to the present pay round, the possibilities for a longer term and fundamental review of pay in the Civil Service and in other areas where the Government had direct responsibility. It was generally agreed that the major publicity campaign in preparation for the coming pay round was essential. The Chancellor of the Exchequer and the Paymaster General should take the lead on this and should continue to consult with her.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed that the Chancellor of the Exchequer and Paymaster General, in consultation with the Prime Minister, should arrange for a campaign of public education preparatory to the coming pay round on the lines described in E(80) 47.

Cabinet Office

6 June 1980

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