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E(80)49
3 June 1980

COPY NO 31

CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PAY AND THE PUBLIC SECTOR
Note by the Central Policy Review Staff

The CPRS shares the Chancellor's view on the importance of bringing down pay settlements in all parts of the economy. In particular settlements in the public sector need to be at levels which help to reduce expectations and contribute to a lower average level on a sustainable downward course. There are four key points in this context the CPRS wishes to draw to the attention of Ministers.

1. It needs to be a hallmark of current policies that they establish trends which are enduring. Short-term measures designed to bring about a precipitous change run the risk of provoking a backlash in later years. Indeed, many of the present problems are the result of such action in the past. Thus whilst we agree with the Chancellor that cash limits should be used in the public services to constrain pay increases, the success of this policy in the medium term depends, when setting cash limits, upon implying realistic levels for pay which people can be persuaded to accept. To go further runs the risk of unsuccessful confrontation, if not this year then next year, which could discredit the cash limits system. It would also be a mistake to abandon 'structured comparability' unless a lower outturn in settlements would result. A pragmatic approach is therefore required for the public services, and where it is prudent to retain comparability, it will be necessary to make full use of such scope for flexibility as already exists to shave off a vital two or three per cent in arriving at settlements. A further short-term measure of restraint can be achieved by staging (point 3 below) but even where comparability ceases to be the main basis for settlement, the fabric of the system, improved where necessary, should be retained for the longer term. The essential, immediate requirement is that settlements in the public sector should not inhibit the expected fall in the private

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sector. Once this fall is seen to be happening, similar or even lower rates should be possible in the public services. (This is, in effect, the Chancellor's option C but with emphasis on abandoning the comparability structure only in those instances where that action is likely in practice to lead to lower settlements.)

2. The level of future settlements will, inevitably, be influenced by the Government's changed stance and actions from now on. An early test will be treatment of the forthcoming TSRB reports, which will involve a difficult decision. On the one hand this is an area within the Government's control where it could be seen to be taking a positive stance to start reducing expectations before the next pay round. On the other hand these settlements are the last of the present round, and include an element of catching up from previous pay rounds which many others have already received, with figures overall of the order of 50 per cent. It will not be realistic to take much more than a few percentage points off the figures, and so such a lead may not have much effect in setting a lower tone for the next round. However, if Ministers accept the TSRB's recommendations without any reductions, it will be important to emphasise, at the time they are announced, that they represent the end of the previous regime, that catching up from previous rounds is over, and that future settlements in the public sector will have to be less generous.

3. Tight monetary policy should ensure lower settlements in the private sector, especially the part which competes internationally. The difficult period will be before these are reflected in the average figures. During this time reassurance is required to the private sector that all possible is being done to reduce settlements where the Government is in direct control. One possibility worth examining would be to announce that:

(a) no final settlements in the public services would be agreed until the trend had emerged in the private sector - interim awards at a moderate level would be made for settlements due early in the pay round;

(b) no settlements in the public services would be made above that lower trend.

Even with this suggested approach to delay final settlements in the public services, it would be particularly important to ensure that these early private sector settlements which are well publicised are as low as possible

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and are also presented as such - not an easy task when companies like Ford may be more interested in a quick settlement than the risk of a strike. Also, although the Government does not have direct control in the public trading sector, it would be important to ensure that the Chairmen of the nationalised industries go as far as possible to support the Government's stance of aiming for the lower trend in settlements.

4. A statement of Government policy on the above lines would need to be part of a well orchestrated education campaign, with full support of the necessary resources, in particular of Ministerial time, to make the public more fully aware of the economic problems and how the policies can provide a solution, presenting them as being equally applicable to both private and public sectors, and hence being broadly equitable.

In summary, the key points are:

(a) that emphasis should be on reduced settlements which will produce a sustainable downward trend. It is important to avoid lurches and very low offers that would produce damaging unsuccessful confrontation. Comparability arrangements should not be abandoned unless this is likely in practice to yield lower settlements.

(b) That every action by Government from now on (e.g. decisions on the TSRB reports and the way they are presented) will contribute to the atmosphere and attitudes that influence settlements in the next round.

(c) That consideration should be given to limiting early public service settlements to moderate interim awards and to deferring final settlements until a downward trend is apparent in the private sector.

(d) That because attitudes are vital to the speed with which lower settlements are achieved and to their subsequent stability, there should be a carefully orchestrated education campaign which emphasises both the effectiveness and the equitable nature of Government policies.

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