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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PUBLIC SERVICES PAY IN THE NEXT PAY ROUND

Note by the Central Policy Review Staff

The meeting of E Committee on 5 June agreed that further consideration should be given to the scheme sketched out in point 3 of the CPRS Note E(80)49. The following paragraphs give details.

Problem

2. The Government's financial policies should bring down the rate of inflation during the next pay round (August 1980 to July 1981). The speed at which this happens will be affected by the rate at which pay settlements fall. Those under the Government's control are particularly influential, not only as a substantial part of an inter-connected labour market, but also because the private sector will be less likely to screw down the level of its own settlements if it is believed that the Government is not being as tough as it could be. Nationalised industries and local Government are not totally under the Government's control. Sadly, they are the part of the public sector which has the greatest effect on the public sector. Nevertheless, great importance also attaches to pay policy for Government services, covering a work force of about 2 million. The main components are the National Health Service (most settlements in December and April); Civil Service non-industrial staff, the Armed Forces, Doctors and Dentists, and TSRB staff (April); and Civil Service industrial staff (July).

3. Pay policy for public services faces a dilemma. On the one hand, the current framework of comparability, improved as far as can be negotiated, would provide a framework for settlements which would be acceptable to the majority of staff affected. Yet the lags built into the system (from two to fourteen months depending on the settlement dates of the various analogues), and the fact that some settlements are due as early as December, mean settlements will be reached at levels higher than the then going rate at times when this discrepancy might in turn have an unfavourable impact

on the rate in the private sector. Private companies need reassurance, if possible before the Recess, that efforts they make to bring down the going rate in the coming pay round will not be, as they see it, sabotaged by the Government's comparability system.

4. But the other horn of the dilemma is just as sharp. If comparability ceases to be the determining factor in public services, certain groups of staff will almost certainly try to use their muscle to achieve settlements at least as high as indicated by comparability figures (wherever derived) to make up for alleged past unfairnesses, and may attempt in some sensitive areas to push settlements even higher. There is a reasonable likelihood that the Government in attempting to impose a tough cash limit would lose at least some of these disputes, with serious consequences for the rest of the pay round, and even more serious consequences for the system of cash limits which it would be forced to breach. This would not be a prudent course. Part of the problem is that dependence solely on cash limits entails making, when they are set, an almost impossibly refined judgement of what will be possible in wage negotiations many months ahead, when the likely pattern of external influences and further progress by the private sector is unknown.

5. There is therefore a need for a modified system which has some chance of being sellable to the work force affected, and of producing results that are sufficiently below the level likely to be achieved by comparability not to be seen as sabotaging the private sector's efforts to beat inflation. In the CPRS's view, the key is to retain comparability as the longer-term alternative to damaging strikes in public services, while providing over the next pay round for a dilution of comparability to take account of the exceptional factor of an inflation rate beginning to fall after a period during which it has been rising. The need is for an exceptional arrangement to cut out benefits deriving from the lags built into the normal comparability system. This need is reinforced by the fact that, in the absence of such an arrangement, the prospect of bringing down the rate of inflation is likely to be worse.

Proposal

6. The CPRS suggests that the Government should announce, as soon as possible but after consultation with Civil Service and other relevant unions, a scheme dealing with the special and non-recurring problems of public service pay in the 1980-81 pay round. Staff sides would be told that the scheme was the only alternative to absolute adherence to low cash limits

The scheme would have two elements:-

(a) as public service pay settlement dates come up, the Government would immediately pay an interim award clearly below the then current average rate of increase of earnings; for purposes of illustration at this stage, say, 13%;

(b) final settlements would be reached at the end of the pay round. The figures would be derived by calculating the percentage increase obtained by analogues in the 1980-81 pay round. This percentage would then be applied to the pay level obtained in the 1979-80 round in the public services. Increases above 13% would be back-dated to the interim settlement date. There would be no back-dating in following years for any sums lost under the scheme. (There might, however, be a catch-up adjustment for pension purposes if technically feasible.) In the subsequent pay round, normal comparability would be reinstated to bring public service pay levels back up to the levels of the analogues. This would be "catching up", but on a modest scale.

7. The necessary information about analogues' pay will already be available for the Civil Service and TSRB staff, assuming that current arrangements will continue. The CPRS sees advantage, for the longer term as well as for 1980-81, in making similar arrangements for the National Health Service. In the absence of adequate analogue comparability for the NHS, a figure could be derived from average increases in earnings.

8. No illustrative figures for final settlements would be made public in advance. Cash limits for pay would be subject to adjustment in the light of final settlements, but other aspects of cash limits would be unaffected. The nature of the scheme is to make the level of public service settlements depend on the (falling) level of private sector settlements, and no figure can be given publicly for the latter without setting what would be seen as a norm, which it is not the Government's policy to do. For public expenditure purposes, however, confidential forecasts could be made, starting somewhat above 13% and becoming progressively more accurate as the next pay round progresses. In the view of the CPRS, the alternative of publicly announced cash limits below those set for the current pay round would in fact end up by bring breached, with the serious consequences set out in paragraph 4 above. If it is accepted that this is not a prudent alternative, the CPRS's proposal, or some variant of it, offers the best hope of bringing down public service pay in the next round to the minimum obtainable level, against the background of declining private sector

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settlements. The proposal will help encourage this decline, and should [illegible] welcome to public opinion generally as fair and as further indication [illegible] the Government was taking active steps in support of its economic polic[illegible]. It will also encourage people to fix their sights on the future, falling rate of inflation rather than on the Retail Price Index. The proposal would thus take a useful place in the wider publicity campaign which Ministers have decided should be energetically pursued.

Cabinet Office

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