

SECRET



PRIME MINISTER

PUBLIC SECTOR PAY

The Chancellor of the Exchequer's paper which you are to discuss on Monday outlines various ways of dealing with the problems of Civil Service pay.

In reality, however, there are only two ways of dealing with this. Either it can be dealt with on some form of pay research basis, however improved, or we can have an annual confrontation.

The latter has been the dream of the Left-Wing militants in the Civil Service. It would mean a damaging battle each year with the unions.

We have already taken decisions on a smaller more efficient Service. In this I think we can carry the bulk of the staff with us. If at the same time we jettison pay research, we shall lose the co-operation of the Service, with all that means. We would I believe face extensive industrial action in areas which would be very damaging to us.

There is no real half-way house here. We have at present a pay system jointly agreed by the Government and the staff. The pay research system can certainly be improved, but it would need to be agreed.

At a time when we are seeing a much more moderate mood emerge in the Civil Service Unions, it would be a tragedy to abandon a pay research system, and give the militants their best present for years.

I cannot alas be with you on Monday, so Paul Channon will represent me. But I wanted to let you know my thinking.

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16 May 1980

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