

SECRET

W. H. Hester
10 April 1981
Policy Unit

8

PRIME MINISTER

CIVIL SERVICE PAY DISPUTE

Civil Service

This note contains some further thoughts to ensure that there was no misunderstanding of what we were proposing in our minute of 8 April.

1. "OUR" OBJECTIVES AND STRATEGY DEPEND ON OUR ASSESSMENT OF "THEIRS"

1.1 We are not advocating a sweat-it-out war of attrition; nor are we advocating escalation. We are saying that if neither we nor the unions are prepared to compromise on our objectives, then sweating it out will be the consequence, whether we like it or not, and escalation may then be a legitimate tactic.

1.2 This raises three questions. First, what are our objectives? Second, what do we think are their objectives? Third, can we, as a matter of fact, sweat it out if it comes to that?

2. THE MESSAGE

2.1 The rough synopsis in our note of 8 April (attached for reference) suggested the sort of line. The purpose of the message is threefold:

(1) Establish the facts. A scrupulously honest factual background for Civil Service staff and the public, putting the dispute in the context of the larger national problem.

(2) Reassure the moderates. Substantive proposals which will reassure civil servants that we are not planning to exploit them etc as union militants claim.

(3) Isolate the militants. Talk reasonably to the moderates. Recognise that most civil servants are responsible people doing a good job. No animosity towards civil servants as individuals, only concern about the cost-performance of the Civil Service as an institution. Recognise openly that suspension of Pay Research has caused genuine alarm, subsequently played on by the militants.

3. THE SUBSTANCE

3.1 1981. We cannot go beyond 7% or, at the limit, 7½% to provide the unions with a face-saver. Anything more than that, and the anger and

SECRET

disillusionment in the hard-pressed private sector would become almost irreversible.

3.2 1982

3.2.1 We could propose three-quarters indexing (neater than X% points) to average earnings in the private sector. We would have to make it crystal clear that this formula had nothing to do with the longer-term arrangements to be developed by the independent enquiry - and establishes no precedent.

3.2.2 Is there any concession we can afford to make to help the Civil Service unions accept this proposal? On reflection, we believe that the Government could commit itself to leaving the inflation-proof pension system intact for the life of this Parliament. If inflation is going to come down anyway (and with index-linked gilts, it had better) inflation-proofed pensions will be a diminishing problem. With 5 million people affected, ending inflation-proofed pensions is hardly an Election winner.

3.3 1983 onwards. A new system, to be proposed by an independent enquiry, with broad terms of reference (we need this, because the enquiry could well look at regionalisation, merit payments, productivity, management practices generally). We should make it clear that that system will of course require to collect information on pay in the same way as PRU did. (We suspect that the suspension of PRU rankles most of all.) The rules of the game, the analogues etc, will need to be brought up to date, and the market forces aspect introduced. But any administered, as distinct from market, system will need some sort of data bank.

I am sending a copy of this note to Geoffrey.



JOHN HOSKYNs