PREM 19/181

MT

SECRET.

PART 1

209

Confidential Filin

Public Sector Pay Policy.

Review of possible Industrial Disputes in the next Pay Round

ECONOMIC POLICY

Part 1

JULY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~23.4.80~~							
~~28.4.80.~~							
~~29.4.80~~							
~~19.5.80~~							
~~20.5.80~~							
~~21.5.80~~							
~~5.6.80.~~							
~~16.6.80.~~							
~~19.6.80~~							
25.6.80							
ends							

PREM 19/181

PART 1 ends:-

CAW to RTA 19.6.80

PART 2 begins:-

E(80)59 25.6.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E (79) 27	19.7.79
E (79) 6th Meeting, Minute 3	24.7.79
CC (80) 16th Conclusions, Minute 4 (extract)	17.4.80
E (80) 46	2.6.80
E (80) 47	3.6.80
E (80) 48	3.6.80
E (80) 49	3.6.80
E (80) 18th Meeting, Minutes	5.6.80
Limited Circulation Annex to E (80) 18th Meeting,	
Minutes	5.6.80
E (80) 53	13.6.80
E (80) 54	13.6.80
E (80) 55	13.6.80
E (80) 56	13.6.80
Limited Circulation Annex to E (80) 20th Meeting,	
Minutes	17.6.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed OWayland Date 16 February 2010

PREM Records Team

Econ Pol

SIR ROBERT ARMSTRONG

PUBLIC SECTOR PAY

I have shown the Prime Minister your minute A02382 of 18 June 1980 and she is content with the arrangements you propose for the continuation of the discussion on public sector pay policy.

C. A. WHITMORE

19 June 1980

1.

Prime Minister.

Agree these proposals?

[initials]

18/6

Yes [initials]

Ref. A02382

MR. WHITMORE

Public Sector Pay

We need to find a time at which the Ministerial Committee on Economic Strategy can complete the discussion on public sector pay policy begun at yesterday's meeting.

2. We have a slot booked for a meeting of E on Wednesday, 25th June at 3.00 pm; but we can hardly use that for the purpose, since the Home Secretary will not be able to be present, and the Committee is about to turn to the pay of police and prison officers.

3. I therefore propose that the discussion on public sector pay should be resumed at an additional meeting of E to be held on Thursday, 26th June at 9.30 am, before the Cabinet. The Cabinet is due to start at 10.30 am, but we could perhaps put that off to 11.00 am: the only business apart from the three routine items is the discussion document on the government in Northern Ireland, and as that has already been gone over by OD, it may not - if the Prime Minister is reasonably content to accept the revised draft I submitted to her yesterday - require a great deal of time in Cabinet.

4. Whether we need to have the meeting of E on the afternoon of 25th June as well is not clear. It looks as if the business may not be ready in time. If it is ready, I think we should go ahead with the meeting: the prospect is of an accumulation of business in July, and we ought to dispose of what we can as soon as we can.

RA

(Robert Armstrong)

18th June, 1980

31

Prime Minister 2

cc Mr Hoskyns

SECRET

Qa 05059

To: PRIME MINISTER

From: J R IBBS

Public Sector Pay

1. In introducing the CPRS paper at E Committee this morning, I emphasised that if Ministers believed that lower settlements could be sustained by 'declaration and determination', then there was no need for expedients such as the CPRS suggestion. The latter was put forward because of doubts about whether the simple direct approach of cash limits on their own could succeed.

2. I am concerned that the discussion centred on the desirability of achieving low settlements by cash limits (on which I think there is widespread agreement) rather than on the practicability of doing this. It is not just a question of standing firm and taking the consequences. If these consequences include being forced ultimately to a settlement higher than a more cautious approach would have led to, and to a breach of cash limits greater than the adjustment that such an approach would entail, the Government would be the loser. In particular the whole approach of control by cash limits could become discredited.

3. I draw attention to this because I believe this aspect has not been adequately covered in the debate so far. I hope that as individual instances are considered case-by-case it may be possible to give it more consideration.

4. I am sending a copy of this minute to Sir Robert Armstrong.

JRI

17 June 1980

SECRET

Prime Minister
I would add one point to this useful note: it is not just the cost of excessive settlements which is important - it is the rate of those settlements also.

Econ Pol

16 June 1980

MR LANKESTER

cc Mr Wolfson

PUBLIC SERVICES PAY 1980/81

1. The Policy Unit feels that Ministers need to decide at E tomorrow on their attitude towards the comparability principle. We are trying to retain it, with marginal improvements, or are we trying to dethrone it? (or get rid of it?)

Comparability Means a Blank Cheque

2. The principle of comparability was devised in quite different circumstances. Over the next two years the private sector as a whole will have to respond to the reduced growth of money supply either by reduced pay settlements or by increased bankruptcies and redundancies. If the adjustment to lower rates of increase in pay is smooth and quick, well and good. But if there are large job losses in the private sector combined with high pay settlements for those who stay in jobs, it cannot make sense to relate public service pay to the level in the surviving part of the private sector. Unless the Government is willing to enforce the same level of redundancies on the public services, it must somehow impose a level of pay increase lower than comparability during the Transition Phase. To do otherwise would be to write a blank cheque, giving a further twist to demands in the private sector in the following year.

Comparability vs. Disruption

3. Those who wish to see comparability continue believe that it is the best safety device for avoiding confrontation. We suspect they believe implicitly that disruption must be avoided, almost regardless of the cost. The CPRS have suggested a way of improving the present system's response to a decelerating rate of inflation - but the improvement is only marginal and brief. By contrast, the Chancellor's approach of fixing firm cash limits carried with it the likelihood of industrial action in at least some parts of the public services. If Ministers are unwilling to face this - or anticipate that the outcome of industrial action is likely to be a higher settlement than otherwise - then it follows that comparability should be retained and improved. If, on the other hand, they are willing to face a few strikes and believe they can "win", the Chancellor's approach could bring public expenditure savings of several hundred million pounds.

Civil Service Pay

4. The CPRS proposal is a variant on retaining the comparability principle, but adjusting it so that next year's comparison for the CS is July to July instead of the usual February to February approach. This would mean the final settlement was later (and could not "lead" the private sector) and lower (perhaps one or two percentage points, which would be restored in the following pay round).

5. If Ministers want to retain the comparability principle, the CPRS idea applied to the CS would be a useful improvement. But comparability would remain intact and return in full the following year. The idea might be further improved by making the change to the end of the pay round (July) a permanent one. This would mean interim

payments this year, as CPRS propose, topped up in July 1981. In 1982, the pay settlement for all public services could take place in July. If this has serious drawbacks, a more modest goal would be to move the earlier dates to 1 April.

6. Although the CPRS proposal would prevent public service pay from leading the private sector, it could still be too expensive. If the Chancellor has in mind 13%, the difference between that and comparability might be around 5 percentage points - ie £200m on the Civil Service wage bill. (The CPRS device might reduce the gap to, say, £150m.) If the CS can be regarded as their "civilian counterparts", equal treatment to the armed forces - ie 5 percentage points reduction - would be worth approximately £100m; and for the CS industrials, £38m. So if the Chancellor's 13% could be made to stick, it might save around £300-350m over existing comparability arrangements.

Other Public Services

7. If comparability is to be dethroned for those that have it, there is a strong case for making the primacy of tough cash limits clear at an early stage to the other public service groups who normally settle by negotiation, but probably expect to achieve rough comparability in practice. One percent of the combined local authorities, NHS and teacher wage bills is worth £148m. So this is where the biggest savings could in theory be made. But the more firmly the cash limit for these groups is based on "what the nation can afford", the more the regime will look like a public services pay norm. This seems inherent in the Chancellor's approach.

8. To apply the CPRS proposal to these groups would be to enthrone the principle of comparability still further. If Ministers feel that the outcome of negotiations will be close to comparability anyway, then the CPRS proposal could be worthwhile. If, however, we believe we can reduce the influence of the comparability principle, we should not be contemplating its extension to groups like the NHS.

Essential Services

9. We think it might be possible to leave the existing arrangements intact for certain groups like the policemen, firemen and prison officers. One percentage point on their combined pay bill is only £15m. But this requires further thought.

Conclusion - Next Steps

10. If Ministers decide to reject comparability and assert the primacy of tough cash limits, there is still much work to be done in deciding on the timing of decisions and announcements; contingency plans for dealing with disruption in various quarters; and possible exceptions, like the policemen.

AD

ANDREW DUGUID

30

Ref. A02357

PRIME MINISTER

Public Sector Pay

(E(80) 46, 48, 49, 53, 54, 55, 56)

BACKGROUND

There are four new papers for E Committee's resumed discussion on Public Sector Pay. E(80) 55 by the CPRS summarises the main issues and questions, with cross references to the other papers. It is supplemented by E(80) 56 which is a factual background paper by officials. The CPRS's second paper (E(80) 54) develops their own proposal for a regime of interim awards with the final settlements linked to private sector analogues in the 1980-81 pay round. The paper by the Lord President of the Council (E(80) 53) supplements his earlier paper E(80) 48 by setting out in more detail his proposals for improvements to the pay research system.

2. There is now a formidable mass of paper before the Committee. I suggest that you guide them through it by using the CPRS's main issues paper (E(80) 55) as an annotated agenda, and that you take it sector by sector starting with the Civil Service. You can then pick up points in the other main papers by the Lord President (E(80) 48 and 53) and by the Chancellor of the Exchequer (E(80) 46) as you go along.

3. It will almost certainly be necessary to have a further discussion at a later meeting. While there is no reason to treat each part of the public sector alike, the Committee will wish to look at the package as a whole and to be satisfied that any differences are defensible. This will also give the Secretary of State for Employment an opportunity to give his views; he is in the USA this week and will be represented by Lord Gowrie. The main constraint on timing is that, if any of the new initiatives for dealing with Civil Service pay are to be adopted, there will have to be negotiations with the staff side which should start in July.

HANDLING

4. If you agree with this approach to handling the discussion, you might open the meeting yourself by outlining it to the Committee. You can also inform them that there will be a "second reading" discussion of the TSRB report on the higher Civil Service etc. at Cabinet on Thursday followed by a further discussion, also in Cabinet, to take decisions on both reports once the report on MPs is available.

The Civil Service (paragraphs 7(a) and (b) of E(80) 55)

5. The settlement date of the non-industrial Civil Service is in April and that of the industrials in July - i.e. the latter have yet to settle for the present round; but the approach to them is essentially the same. The CPRS in paragraph 7(a) of their paper summarise the three possible approaches under discussion:-

(i) The Lord President (E(80) 48 and 53) recommends cash limits reflecting the hardest bargain which can be negotiated on the basis of improved pay research systems.

(ii) The Chancellor of the Exchequer in E(80) 46 wants pay research to be dethroned and primacy given to cash limits.

(iii) The CPRS (in E(80) 49 and 54) propose that, to deal with the lag problems, there should be interim increases in the next round, to be topped up later in the round by further increases to match actual increases in private sector analogues in the year 1980-81 (there are timing problems here: the pay increase for non-industrials is due on 1st April 1981, and that for industrials on 1st July 1981: the topping up increases paid might need to be paid later than 1st July 1981, which is the date suggested by the CPRS).

6. For this part of the discussion you might ask the Lord President to speak first on his proposal and then turn to Mr. Ibbs. The Chancellor of the Exchequer might then comment on the two other proposals as well as his own.

7. The fundamental question in looking at the first two possibilities is what is the likely gap between the cash limits of 13 per cent or less which the Chancellor wants to set and what might be the hardest bargain which could be

driven on the basis of revised pay research as proposed by the Lord President. There is great uncertainty on this. The note by the Treasury - paragraph 5 and Annex II of E(80) 56 - suggests that by the end of 1980 the year on year increase in earnings might be 16-22 per cent and by April 1981 12-18 per cent. It is on the basis of this that the CPRS suggest that the range might be 15-20 per cent. You may wish to press the Chancellor to give the Committee firmer guidance on this because without it Ministers are to a degree arguing in the dark. But if the probability is that even with hard bargaining the likely outcome will leave a gap between cash limits and pay settlement which cannot be bridged by further staff cuts, increased pension contributions etc., the choice boils down to raising the cash limit (before or after the event) to allow for something more than 13 per cent or setting it at 13 per cent and then risking industrial disputes which could be highly costly to the public sector borrowing requirement. (Annex III, Section 8, of E(80) 56 gives a short assessment of the possible effects of industrial action in the Civil Service). In looking at this the Committee will wish to bear in mind that the possibilities for bridging any gap by staff cuts are likely to be much more limited in the current round because the cash limit will from the outset take account of the substantial staff cuts which will be implemented in the coming year as the first stage of the exercise to bring numbers down to 630,000.

8. The CPRS's approach (in E(80) 49) would have the effect of tying Civil Service pay increases closely to the success or failure of the private sector in its own negotiations during the 1980-81 round. The Chancellor of the Exchequer will wish to comment on the implication that the cash limits would, therefore, have to accommodate rather than to constrain the outcome. The proposal is very much directed to meeting the argument that public sector settlements should be a beneficial influence on the private sector, and at the least not a bad influence. The Lord President, however, would question whether the evidence of recent years bears out the argument that constraints on public sector pay lead to constraints on the private sector - see the graph attached to his earlier paper E(80) 48. And there must be a question mark over whether the CPRS scheme could be negotiated with, or imposed on, the unions without industrial trouble. You will want the Lord President's assessment here.

9. This is the most difficult area of the Committee's discussion and is at the heart of the arguments over comparability. (Of the 5.6 million public sector employees listed in Annex I of E(80) 56 only 1.1 million are subject to comparability and of those approximately 0.7 million are civil servants, the rest being mainly the armed forces). It may, therefore, be necessary to commission further work from the CPRS, Treasury and CSD before the Committee can reach a final conclusion.

The Armed Forces (paragraph 7c)

10. There is a Manifesto commitment to maintain armed forces' pay to levels comparable with that of their civilian counterparts. The question is whether this commitment is binding. If it is, does the cash limit have to accommodate the outcome of comparability? Or can offsetting savings be made - e.g. from elsewhere within the Defence Budget and/or by tightening the terms of reference for the Armed Forces Pay Review Body? If the armed forces are treated more generously than other public sector groups can that be defended - e.g. by recruitment arguments?

11. The Secretary of State for Defence and the Chancellor of the Exchequer will wish to speak to this. The Lord President is preparing a paper, for discussion at a later meeting, on the terms of reference of the various Pay Review Bodies.

The National Health Service (paragraph 7d)

12. NHS ancilliaries and ambulancemen settle in December and the rest in April. The cash limit effectively sets the pay. Except for doctors and dentists, there is no formal comparability.

13. Paragraph 7d sets out the three broad choices, which parallel those for the Civil Service. As with the Civil Service, there is a problem of bridging the gap between the cash limit the Chancellor might want and the minimum negotiable without disruption (see section 6 of Annex III of E(80) 56 for an assessment of the consequences of disruption). For the doctors and dentists the question is whether direct bargaining would be cheaper than continuing with the Review Body. This is the area where the question of

setting different cash limits for different groups is most pertinent because, the armed forces apart, there is less room for flexibility in spending in the NHS than in any other group. Moreover, assuming that a 14 per cent settlement for nurses is reached this year, they will want to catch up next year.

14. The Secretary of State for Social Services, the Chancellor of the Exchequer and Mr. Ibbs will wish to speak on this.

Prison officers (paragraph 7e)

15. Their pay is determined as an average of all Civil Service increases. The Home Secretary will wish to speak on the question of whether special consideration should be given to this group.

Policemen and firemen (paragraphs 8f and g)

16. Police pay is index linked and is not cash limited. The settlement date is September 1980. Firemen's pay is also indexed and is not constrained by the general local authority cash limit. The settlement date is November. The Home Secretary will comment on the case for maintaining special treatment for these groups; and the Secretary of State for the Environment on the possibility of seeking to influence local authorities on the arrangements for the firemen.

Local authorities and teachers (paragraphs 9h and i)

17. In effect the constraint is the Rate Support Grant cash limit which has to be settled by November. Subject to any points the Secretary of State for the Environment makes there is probably nothing more to be discussed at this stage. (He will be reporting next month on the option for dealing with the likely overspend in the current year).

18. For teachers, Ministers will have to decide on the current claim when the arbitration awards are available (probably the last week in July). If the Committee were disposed to pursue the longer term possibility of legislating to withdraw the right to arbitration, it would be necessary to involve the Secretary of State for Education in the discussion.

Nationalised industries (paragraph 9j)

19. The main constraints are the external financing limits. The main question is whether these should be set in November, as last year, in order to influence the pay negotiations or later. The Chancellor of the Exchequer will wish to speak on this and on his proposals in paragraphs 18-24 of E(80) 46.

20. The Committee may well endorse the Chancellor's approach here and, if so, you could invite him to supervise further work through his E(NF) sub-committee.

Clegg (paragraph 10k)

21. It would be better to defer a decision on this until the next meeting when the Secretary of State for Employment will be available.

Timing of decisions (paragraph 10h)

22. Difficult questions of timing both on cash limits and EFLs will have to be resolved at some stage. The Chancellor will need to make specific proposals when the general debate is further advanced.

Size of cash limits (paragraph 10m)

23. The Committee may wish to give the Chancellor guidance on whether cash limit/EFL pay assumptions should be uniform, or nearly so, throughout the public sector or whether they would prefer a more differentiated approach e.g. to accommodat the NHS.

CONCLUSIONS

24. You will wish to record conclusions on as many of these issues as possible and so narrow down the areas for discussion at the next meeting. Given the interlinking between these decisions, however, it might be prudent to think in terms of provisional decisions to be confirmed or altered as part of a total package later.

25. If further work is commissioned on, for example, the Civil Service it would help if the CPRS could be asked to co-ordinate.

26. You might ask the Lord President to circulate in time for the next meeting his paper on the possibilities for tightening the terms of reference of the Pay Review Bodies.

D J Wright

(Robert Armstrong) (approved by Sir R Armstrong and signed on his behalf)

16th June, 1980

Ref: A02347

29 General objective.
- figure.
Each pay claim - scope for influence

SECRET

PRIME MINISTER

Public Sector Pay Policy and Inflation

I was not at the first E meeting on public sector pay policy; but I was led by the papers and by the minutes of the discussion to wonder whether we were going about this the best way.

2. The Lord President's paper arguing for the retention of the pay research system for the Civil Service was - whether one agrees with it or not - at least an argued statement of a clear point of view, leading to a definite conclusion. The Chancellor of the Exchequer's paper, on the other hand, was less clear in its conclusion; it argued that we should "dethrone comparability" (without throwing it out of the window), but it did not provide a clear definition of how that was to be done or what would be involved in doing it. Nor did it allow for the fact that comparability is like nature: you can expel it with a pitchfork, but it always comes back. Whether it is institutionalised in the form of pay research or of traditional pay linkages, or whether it is simply a subjective element in the minds of unions and their members ("keeping up with the Joneses"), no door can keep it out. It may be possible at particular times to break particular links, but it is not possible to eliminate it in general as a potent element in the pay bargaining process.

3. The discussion so far also seems to lack numbers. It is difficult to decide how to tackle next year's problem without some numbers for the expected level and trend of inflation (as measured by the retail price index) and for the expected level and trend of wages and salaries. One has to start from the forecast relationship between pay and earnings in aggregate; one has to form a view on the extent to which one wants or needs to change that relationship (i.e. the amount by which one would like to bring down the average increase in wages and salaries); and then there is no substitute for going through the public sector settlements due next year in detail, and taking a view on what course each is likely to face and what possibilities there are for the Government to modify that course in the pursuit of its general objective.

4. This is not to say that there should not be a public relations campaign of the kind suggested by the Chancellor. I am sure there should be. But it is also necessary to go from the general to the particular, and consider what scope there is for influencing the outcome of particular settlements. Only so can the Government decide whether it is better to try to work within the framework of existing bargaining and institutional arrangements and do the best one can in each case - which will be messy and imperfect, but probably enables the Government more readily to choose the ground on which it stands and fights - or to try to break the mould of existing bargaining and institutional arrangements - which carries greater risk of confrontation and defeat on ground not of the Government's choosing.

5. If this analysis were to be accepted, it would provide a framework for discussion of the problem. We should ask the Chancellor for his forecasts of inflation and of the rise in aggregate earnings; and we should commission a detailed review of public sector wage settlements next year (September 1980 to August 1981) in chronological order, assessing the prospects for each, and the scope for influencing the result in each case. That work, done over the next two or three weeks, would enable Ministers to give informed consideration in July to what their objectives should be, and how they should set about pursuing them.

6. There is a separate point. Reducing the rate of inflation is the Government's highest economic priority. Over the coming months the retail price index is expected to fall, as the 1979 increase in VAT drops out and the seasonal easing in food prices comes through. It is crucially important, if we can, for psychological as well as economic reasons, not to lose the opportunities which this presents to turn the tide.

7. I wonder whether it would be worth your deciding to hold a regular meeting every month for the next six months with the Chancellor of the Exchequer and the Governor of the Bank of England, at which you would review how the reduction in the rate of inflation was going, what was the current state of industrial activity and expectations, and what the Government could or should

do to encourage developments which looked promising and forestall those which looked unfavourable. This would not be a formal Cabinet Committee, but it would need to be serviced with information which could be assembled by the CPRS in consultation with the Treasury and with the Bank of England, whose information on industrial prospects and expectations is the best available.

RA

(Robert Armstrong)

16th June 1980

16 JUN [illegible]

CONFIDENTIAL

Prime Minister ✓ 4

T.
12/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

12 June 1980

Tim Lankester Esq
11 Downing Street
LONDON
SW1

Dear Tim,

PUBLIC SECTOR PAY: EDUCATION CAMPAIGN

The Chancellor has received the enclosed letter from the Secretary of State for Energy. He has spoken to Mr Howell, and has a good deal of sympathy with many of his suggestions, but as you would expect he does not sign up to everything; eg, a reduction in the rate of VAT does not commend itself to him.

2. He has asked me to give the letter a limited distribution to those intimately concerned in the Treasury and outside with the Education Campaign. I am therefore copying this letter with enclosure to John Hoskyns, Richard Prescott and Bernard Ingham.

Yours ever,

M A HALL
Private Secretary

CONFIDENTIAL

CONFIDENTIAL

C

Sol 10/6

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01-211-6402

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament St
London SW1

10th June 1980

MR MONCK
MR UNWIN
MR RAYNER
MR RIDLEY
MR CROPPER

Dear Geoffrey

After our discussion in E on public sector pay, at which your 'education campaign' paper was not discussed, I said I would let you have some comments which might be of help in supplementing the line you propose to take with Angus as per your paper.

1. We may next year get outbursts of pay commonsense here and there in face of the realisation that the Government means business on the monetary side. But in my view we are going to get no general descaling of demands for full real income compensation (as perceived from latest RPI figures) unless

a) It is understood widely and readily that there really is a critical situation of world-wide dimensions demanding downward adjustment of standards and a period of 'adjustment' on a wholly abnormal scale in peacetime,

Very important

b) that if people hold back from pressing as they otherwise would there will be tangible and fair future rewards for the many and not just rip-offs for the few.

2. As far as a) above is concerned we have a weapon to hand in establishing the sense of crisis which we are just not using at

present. There is a widespread commonsense appreciation that cheap energy has gone - at least for a few years until the free world ceases to rely so heavily on vulnerable and unstable regions for 60 percent of its oil. People see this and realise that it involves major adjustment. Even the blindest can read the ever higher prices at the pumps.

The task of getting the message over is made more difficult by the fact of North Sea oil, certainly. But it is far from insuperable. On the contrary every opinion trawl shows a remarkable public awareness that we cannot be insulated here from the oil squeeze, that anyway we have to trade our oil to live and that a farmer cannot eat all his own corn.

Far from underplaying the drastic short-term drop in living standards this involves, we should if anything overplay it. The OECD tell us that since the beginning of '79 higher oil prices have transferred the equivalent of £1000 per family in OECD countries to OPEC countries. We should be asking people how on earth they can expect full real income compensation with that going on - unless of course they earn it by higher output and exports.

3. Despite occasional periods of oil supply/demand balance, such as recently, we are going to face these upsurges and erratic oil price movements again and again over the next few years. Each time there will be a new and upsetting burst of pressure on either our own internal price structure, or sterling, or a bit of both. Sudden further oil production cuts or political disruption could trigger another supply or price crisis any day of the week.

Yet the public economic debate has been allowed to meander on in a way totally disconnected from these frightening influences. It has hardly reached the House of Commons, let along the constituencies or the shop floor. None of us can handle this message alone. We need a united effort to get across that the world has changed, rapidly and dangerously, and that unless both consumption habits and expectations adjust sharply too, we are in for much pain and grief. I see the task of accommodating public expenditure to monetary targets next year as vastly more difficult than we imagine, unless this sort of understanding pervades the public debate.

4. As far as fair, future rewards are concerned, you know my views, I fear. I believe we have to make infinitely more of the theme of remuneration through future ownership and capital accumulation rather than through trying to grab money income now. I believe we should not only take what we are already doing in this field (e.g. employee shares, small business, home-buying etc) but weave this into a much bolder theme to give people a glimpse of the much more democratic and less collectivised capital-owning free society that could be ours ahead. Why should people 'be responsible' now when they feel that others are not and when they see no real picture of the world ahead which they and their families could enjoy? Why make sacrifices when others will collect?

5.a) In the phase immediately ahead there is a great deal to be done to stitch together both the anxieties about the energy crisis and the desire for a response, both to this and inflation generally, that is fair all round without getting dragged away from our public spending imperatives and without getting pushed into ~~a~~ disastrous incomes policy. You have made a start and I know have other fiscal proposals in the pending tray to introduce ever wider circles of the working population to the ownership idea.

b) On the more negative 'stick' side I wonder whether people feel we are being evenhanded in our decision, endorsed at Tokyo, not to protect the population from higher energy prices. I doubt it. Should we not be much tougher on cars above 2 litres (both business and private)? Are the large sums set aside for helping the worst hit really going out in the most imaginative and sensitive ways? Do people feel we are using the ever-swelling profits of the oil sector fairly?

c) You felt constrained from putting more on petrol because of the RPI impact although it is still not historially high in real terms.

But is it unthinkable to match higher petrol taxes, designed to hit the bigger consumers, with a step down on VAT, thus having a neutral effect on the RPI? At ~~least that would~~ reinforce the sense that 'there's a war on' without once again cranking up the whole RPI/public expenditure cycle which has caused us so much difficulty so far.

6. I hope these thoughts are of use. I feel very strongly that we have not yet succeeded in injecting the sense of world danger into our local British economic debate. Even before the events of '79 there was the vital need to make people face the realities. Perhaps the energy upheaval since, far from making everything more difficult to get over, can be used to bring home more vividly the imperative need to adjust demand and expectations downwards, and also show a way of doing so that is widely regarded as fair and reasonable.

7. I am not copying to E members but would be ready to do so if you felt that it would be helpful to our discussions.

Yours ever

David

D A R Howell

CONFIDENTIAL

Prime Minister
You can decide how you want to handle the Top Salary and MPs' pay reports as soon as we receive them.
T.
11/6

MT.

Ref. A02335

MR. WHITMORE

Public Sector Pay

At last Thursday's meeting of E the Prime Minister asked that discussion of public sector pay as a whole should be resumed at an early meeting, and that discussion of the two outstanding TSRB reports should be brought forward as soon as practicable.

2. She may like to know where we stand.

3. A meeting of E has been called for Tuesday, 17th June. For that meeting we should have:

(a) A CPRS "checklist" paper which should serve to focus discussion.

(b) A background paper containing relevant factual information.

(c) A note by the CPRS, expanding its concept of interim payments.

Ken Berrill has now sent in a paper which I will give you over the w/end. I will ask him to stand by to discuss with you on Monday evening.
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4. The Civil Service Department have in preparation a paper on the scope and possibilities for amending the terms of reference of Review Bodies and other similar bodies. That is in hand, but may not be ready in time for next Tuesday.

5. The Top Salaries Review Body's report on "Top Salaries" will not be available until the weekend and perhaps not until Monday. The TSRB report on MPs' pay is not now expected until about 25th June. We shall not therefore be able to discuss these at E on Tuesday, 17th June. In my view they will both need to be discussed together; and it may be that both reports should go straight to Cabinet: since the report on Top Salaries will cover judges, senior officers of the Armed Forces and nationalised industry board members as well as higher civil servants, a number of Ministers would have to be invited if this were to be discussed at E; and in any case the problems of how to deal with these two reports are so closely related that it seems to make sense to discuss them together.

6. I shall of course make proposals for handling these reports when they are available; but it looks as if they will need to come to the Cabinet in the first or second week of July.

RTA
ROBERT ARMSTRONG

11th June, 1980

CONFIDENTIAL

Ken Bevill's paper . How. RSG 9 13

PUBLIC SECTOR PAY POLICY 1980-81

Comp. - This year
Temp. Cart's

(1) The present Government came to power with the most radical approach to Britain's problems which had been seen for over 30 years - reduce the power of the trades unions; reduce the scope of the nationalised industries; contain the spendthrift habits of many local authorities; improve the efficiency and reduce the size of the public bureaucracies central and local; reduce the level of personal direct tax etc.

Some such radical approach was long overdue for although little of this programme is completely new the essential difference has been this Government's willingness in the first year of office actually to grasp these politically dangerous nettles which its predecessors talked of but in the event largely avoided. The surprising result, so far, is that the public has, in general, applauded the boldness rather than cavilled at the effects. Perhaps it is because the extent of Britain's slide has finally penetrated the public consciousness and they really do now want something to be done even if that something is painful.

But these changes can, in the main, only show significant results in the next Parliament. In this Parliament the Government is likely to be judged in the one field in which it has been (untypically) less courageous than many of its predecessors. That is the field of pay policy and the rate of inflation which is so closely linked to it. The Government's caution in this area is understandable. The history of post-war Britain is littered with failed pay policies; including the immediate precedents of Mr. Heath and the miners and the collapse of the 1975-8 Labour Government's incomes policies. The lessons seemed obvious. Avoid overt incomes policies; they are bound to lead the Government of the day into major pay battles in the heavily unionised public sector which the unions will win. The public will resent the disruption and neither thank the Government nor support it. So keep out of the firing line by relying on tight monetary limits in the private sector and tight cash limits in the public sector to reduce the employers' ability to pay. Reduced ability to pay will, through the operations

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of the labour market, cut back on pay settlements and inflation without the Government having to put itself into the front line defending an overt incomes policy where it is bound, sooner or later, to be defeated.

This analysis obviously has a great deal to support it and is much more attractive to this Government at least, than incomes policy. Provided always that it actually works. In the Government's first year of office the policy 'worked' in one sense, but only in one sense. There were indeed few worrying wage confrontations in the public sector. The steel strike was the exception and it was no part of the Government's intention that the clumsiness of the steel managment should provoke the steel workers to strike. But by good fortune it was a strike which would not inconvenience the public and which would not cause an immediate loss of jobs elsewhere. Indeed it was a strike which the Government could 'win' - provided there was little sympathetic action by other unions. It was a strike which may have been 'worth it' by helping to convince the steel industry to accept the major management changes and capacity reductions which are needed. But perhaps most important of all it was a strike which filled the media for many weeks and gave the public the impression that the Government refusal to ease the cash limits for steel meant that it was being tough and resistant on public sector pay whereas in practice it was quietly allowing settlements around 20% wherever resistance might lead to a troublesome battle.

In the first year the Government policy of relying on M3 and cash limits worked in the sense of enabling it to avoid being in the firing line of wage confrontation but by the fundamental measure of holding back wage settlements and inflation it was little short of a disaster. (Little short that is of the disaster of 1974-75). Earnings and prices rising at over 20% despite the support of a high exchange rate is not what was expected in Opposition. But last year's experience is past and there were special features of the Government inheriting the collapse of the previous pay policy and the Clegg commitments. The important question, indeed the only question, is what happens next. And by 'next' is meant the next pay round and the one following. After that it will be getting uncomfortably close to the next election.

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In the end reduced 'ability to pay' through M3 and cash limits will affect pay settlements in the private sector, nationalised industries, and local goverment and comparability will mean that central government will, after a lag, follow them down. But how long would this take and what damage ~~would be inflicted on the~~ way.

The ease with which monetary discipline works in an economy depends very much on the structure of the labour market. There are three features of the British labour market which in this context are important: (i) the tradition of annual wage settlements with, as a mimumum, backward looking indexation (ii) widespread nationalised industries, many with monopoly powers (iii) pay research and comparability in the central public services.

Backward looking indexation implies that, irrespective of the likely rate of inflation in the year ahead, the minimum wage increase is one which compensates for the rise in the RPI in the past year. And indeed this seems only fair and proper for if a certain level of real wages was agreed a year ago such an approach is only reconfirming that previous agreement. Britain is, of course, not alone in this approach. Italy has it in a highly institutionalised form in the official economy, if not in the informal.

But if the RPI rise in the year ahead is less than in the year which has passed, backward looking indexation means that the level of real income in the year ahead will be higher than over the past year by half the difference between the two inflation rates. In the period immediately ahead in Britain it will be very difficult to give higher real incomes across the board for output is unlikely to rise nor the terms of trade to improve. So in today's conditions in Britain, backward looking indexation, which appears a modest, even minimal, request makes it impossible to reduce inflation at all rapidly. Yet it will be hard to shift peoples' belief that such indexation is "fair"; particularly when the complex web of advisory bodies and past commitments continues to institutionalise this approach.

Of course, backward looking indexation is not wholely impervious to the pressures of 'ability to pay'. M3 and cash limits will be

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having their effect but the impact of this effect is very varied. Some nationalised industries are in a monopoly position and may be little affected; some sectors of private industry are similarly comfortably placed (eg the banks or those service industries not liable to international competition); some large firms are in a strong position to borrow money at home or overseas. So, many of the larger industrial employers can, and will, grant at least backward indexation rather than face damaging industrial action. These large settlements are the ones which receive media publicity and tend to set the 'tone of the round'.

Meanwhile, of course, the pressure of M3 will be doing its work; indeed those who can escape the pressure ~~to~~ do so at the expense of intensified pressure on those who cannot. The crunch comes in sectors open to international competition and in particular on the small and medium sized firms in those sectors. These sectors face the effects of the high settlements being granted elsewhere; the intensified scramble for credit which pushes up interest rates and the effect on sterling which this creates.

So the very 'modest' approach of backward looking indexation makes a rapid reduction of inflation over the next two years very difficult to achieve and enhances the tension between those who can get credit or raise their selling price and those who cannot. M3 and cash limits will work in the end but the end is further off and the cost of getting there that much higher than in some other economies. It was, in part, this dilemna caused by backward indexation constraining the reduction of rapid inflation, which led past UK Governments to try to cut the Gordian Knot by a wages freeze or low norm - which might achieve 'success', if only temporarily and at considerable subsequent cost. The alternative is to try to buttress the 'ability to pay'/M3/cash limits approach by constraining the prices increases of nationalised industries, putting pressure on eg the banks and the oil companies not to grant large pay increases out of large windfall profits and conducting a compaign pointing out that failure to compensate for past RPI increases does not necessarily reduce real incomes if future RPI increases are less.

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Such a campaign would need to be directed at advisory bodies as well as at the private sector and the public at large. Even then there would still remain the commitments to armed forces, police, fire etc.

The second feature of the British labour market which reduces the impact of the ability to pay approach is the power of unions in the nationalised industries and the ability of those industries to find the money for large pay increases by raising prices (or by reducing investment and stocks, or by changing their source of raw materials eg importing coal). Here there is little choice. If in the area of nationalised industries the Government wants to reinforce the pressure of the 'ability to pay' on wage settlements they cannot both do so and continue to remain out of the firing line. The experience this year with the steel industry would need to be risked in a number of nationalised industries. The dangers are obvious but the alternative is to see the nationalised industries setting the pace for continued inflation with high settlements and high price increases in areas which have an immediate effect on the public - postal charges, commuting costs, water rates; in addition to the high costs of keeping up with the world price for heat and light.

The third feature of the British labour market which contains the operation of the 'ability to pay' is pay research and comparability in the determination of pay levels in central government. It is not an adequate defence of this system to point out that in recent years local government pay has risen faster than central government, or that by definition comparability can only follow the rise of incomes in the private sector and not lead them. The Government has decided to be quite tough on local authorities in fixing cash limits and facing spendthrift authorities with financial penalties. So the experience of local government pay may be different in the years immediately ahead to those just past. Also comparability in the central public sector can indeed be a constraint on the reduction of inflation. In part because the lagged way in which comparability operates has a similar slowing effect to backward looking indexation and in part because the pay research system tends to look mainly at

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"comparable employers". That is mainly to the larger employers in both private and public sectors and to the service industries. These are the very sectors least likely to be affected by the squeeze on 'ability to pay' and so pay research tends to extend this protection to yet another area of the economy. Reform of pay research by changing the choice of analogues so as to remove this bias would be some help b ut would not remove the effect of pay research being lagged and reflecting last year's increases; a feature which produces the backward indexation type of constraint on rapid deceleration.

To sum up: the Government has wanted to keep out of the 'incomes policy' forming line by relying on reduced ability to pay (M3 plus cash limits) cutting back on wage settlements and on inflation. To date this policy has manifestly failed. A failure in the first year can, reasonably, be blamed on the inheritance from Labour. The question which matters is how soon this policy will succeed and at what cost.

These are features of the British wage bargaining system which suggest that it will work only slowly and do considerable damage; particularly to the internationally competitive sectors of our economy and to the smaller firms. In this situation alternative policies must be faced: these are (i) a complete turn round to a wages freeze or a low norm incomes policy and (ii) a less dramatic policy shift with the Government having an incomes policy in the sense of an overt assault on the backward indexation approach; on pay research and comparability as at present practised and on nationalised industries agreeing large pay settlements and finding the money by price increases, investment cuts, etc.

Either of these new approaches would mean the Government abandoning its policy of avoiding overt involvement in pay disputes. The wage freeze or low norm has the presentational advantage of appearing "fair" - though frequently it is not. The other policy is less of a U turn and does allow the Government to pick and choose its battlegrounds. Battles these are bound to be and the Government would have to risk quite a number if the new approach was to have appreciably more "bite" than the present "ability to pay". In particular the nationalised industry

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battlefields are littered with old casualties, including past Governments. But the next battles might not be replays of the past. There are very important trends in the Government's favour:- the public attitudes to unions after the winter of 1978-79 and the desire for trades union reform; the lack of cohesion between unions; the belief among workers that some of their jobs may really be at stake and the willingness cross picket lines accordingly; plus signs of weakness in some public sector unions (teachers, S. Wales miners).

Be that as it may, what is completely clear is that the Trades Union leaderships would only collaborate with this Government on any form of incomes policy (a 'social contract') on terms that would be unacceptable, such as the abandonment of legislation on Trades Union reform. So the assumption has to be that no form of incomes policy would be agreed by the unions and the Government has to face a battle on either of the two alternatives to the present approach of leaving it to "ability to pay".

If the Government decides against the wage freeze or low norm it will need to plan its strategy along the lines of:-

1. An attack on backward looking indexation and its comparability counterpart by widespread publicity on the real effects of this approach; by pressure on the protected parts of the private sector (e.g. banks) not to give high awards; by improvements in the pay research system. But the Government will not wish to have too many battles at once and it will need to decide which of its firm commitments it will adhere to (Armed Forces, Police, Fire, various advisory bodies). Avoiding most unpleasantness and risk would of course negate the change of policy.

2. An attack on wage settlements in nationalised industries via involvement in price increases and wage offers. Again on a selective basis and again on the principle that no good will have been achieved if most risks are avoided.

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So the basic decisions required are:

(a) Is it acceptable, in British conditions, to soldier on till reduced ability to pay has reduced wage settlements and inflation rates to the point where the economy can expect to re-expand on a firmer foundation;

(b) If not, is the alternative to be a wages freezes/low norm type policy or buttressing the "ability to pay" approach with overt attacks on those features of the British system which constrain the "ability to pay" approach from being rapidly successful (accepting always that such a new "high profile" will mean battles).

(c) If the latter course is chosen then where are battles to be risked and where avoided; and around what figure for wages increases are the battle lines to be drawn - 10%? 15%? These detailed issues are obviously important and need much working out and accepting by Departments (all will want to avoid battles on their territory). But the essential first step is for Ministers to agree whether or not they do want to change policy. If they do then the change must be a real one to justify the extra risks and officials must be instructed to examine the detailed alternatives with this fact firmly in mind.

10 June 1980

PRIME MINISTER

PUBLIC SECTOR PAY

The Policy Unit has studied the four papers for discussion at E. Our comments can be summarised as follows:

(1) No problem which is so complex and so central can be seriously discussed on a basis of papers circulated at 48 hours' notice.

(2) Judging from the papers, no shared understanding of the problem emerged from the 19 May meeting.

(3) In particular, the crucial distinction between the process of curing inflation by monetary deceleration ("Transition Phase") and the resulting economic stability, essential for renewed growth ("Stable State") is not generally understood.

(4) The head-on collision between comparability and cash limits during Transition is not recognised in the Lord President's paper. Some numbers would clear the mind.

(5) The "fear of norms" comes close to paralysing our thought processes.

It is therefore likely that tomorrow's E can be no more than a further attempt to get general understanding of the problem. But it may turn out that a precondition for such understanding is a proper presentation to colleagues of the Medium-Term Financial Strategy.

1. THE PROBLEM

1.1 The four papers for discussion at E tomorrow address different parts of the same problem from different perspectives. The opening paragraph of the Chancellor's first paper comes closest to defining the central problem. We are engaged in a Transition Phase from high inflation, to a Stable State with low inflation through a published set of monetary targets. We have only a limited opportunity to achieve our objective. It is limited by time and by society's willingness to accept the inevitable pain of Transition.

1.2 As the Chancellor says, the pay outturn next year will be crucial in affecting the speed at which inflation is reduced and the unemployment and lost production involved in the Transition. The immediate problem is how to achieve a pay outturn low enough to set inflation on a sufficiently rapid downhill course.

2. THE OBJECTIVE

2.1 In his understandable anxiety to avoid appearing to suggest a norm, the Chancellor does not say what pay outturn he would like to see. Without this, and some rough indication of the consequences of a higher pay outturn, it is very hard for the colleagues to judge the size of the problem and the inadequacy of the proposed solutions. Perhaps he could be invited to comment on this, against the background of the target ranges for growth of M_3:

1981-81	7-11%
1981-82	6-10%
1982-83	5- 9%
1983-84	4- 8%

2.2 The immediate objective is next year's pay outturn. The main objective is to reduce inflation to around 5% by 1984, by which time we should have reached Stable State - ie a system which will prevent it getting out of hand again. Anything less than this would represent failure to achieve the central economic objective of the Government.

3. THE TRANSITION PHASE

3.1 Measures which may be necessary during the Transition Phase could be quite different from the sort of regime designed for the period when inflation is largely mastered. The Lord President's paper does not seem to recognise the crucial distinction between transition and subsequent stability. He advances many reasons why comparability may be the best solution to the sub-problem of Civil Service pay, but implicitly against a stable background. But he does not really acknowledge that "backward-looking comparability" could have very undesirable effects during a downward transition from high inflation to low inflation.

4. The private sector, the public sector and, more specifically, the Civil Service, must all be seen in the context of the Transition process.

4.1 The Private Sector

4.1.1 The Chancellor proposes a vigorous campaign of public education. He rightly points to the dangers of mere exhortation, but it is very hard to see how the message he describes at paragraphs 5 and 6 of E(80)47 can be convincingly put over without saying by how much real pay needs to fall, and what the unemployment and inflationary consequences will be of higher levels of outturn. But if we are to be so careful as to avoid mentioning any numbers, it will be very hard to achieve impact. Nevertheless, we entirely agree that Ministers must proclaim their determination to bring down inflation and leave no-one in any doubt about their absolute commitment to monetary targets, whatever the consequences. If we don't say it, no-one will believe we mean it.

4.1.2 It is not sufficient for the Treasury team to be left with the job of making clear the Government's commitment to monetary targets. Other colleagues need to speak up on this subject. But first, we must be sure that all colleagues understand the full significance of 2.1 above and the crucial distinction between Transition and Stable State. Some colleagues may not yet have realised that we must "de-index" the whole of public expenditure if we are not to end the Transition Phase having transferred further resources from the private to the public sector - the precise opposite of our declared objective.

4.2 The Public Sector

4.2.1 The Chancellor distinguishes the Civil Service and other central Government services from local government and nationalised industries where our influence is increasingly remote. He prescribes tough cash limits and EFLs, combined with pressure on nationalised industry chairmen and a fresh effort to produce performance targets related to costs per unit of output for each nationalised industry before the autumn. All this is worthwhile, but will it be sufficient? Because of the pervasive influence of the concept of comparability, much may depend upon the way that concept is used in the public services sector - particularly the Civil Service itself.

4.3 Civil Service Pay

4.3.1 The Chancellor argues for dethroning comparability and, if this is impractical, jettisoning it altogether. Since it cannot be unilaterally banished, he prefers reliable figures to the exaggerated figures that the Civil Service unions are otherwise sure to produce. The Lord President argues that the concept can be made more workable but cannot be dethroned as the central principle for determining Civil Service pay - without still worse results. There is a fundamental difference of approach here. We believe the Chancellor must be right in principle. Comparability must be dethroned because it cannot be reconciled with the cash limits essential to achieve Transition to low inflation. This is so because the results of backward-looking comparability will:

(1) be far removed from the level of cash limits in line with our monetary targets;

(2) risk a knock-on effect in the private sector and elsewhere in the public sector, disturbing the first faltering movements towards a downward trend.

4.4 The Lord President and any colleagues who see things his way need to recognise this incompatibility with public expenditure adjusted to accommodate the monetary targets - unless we resort to increasing taxation. This would be much clearer if the Chancellor was able to indicate what sort of Civil Service cash limit might be necessary next year. Could he do this? Could he also estimate now what PRU is likely to produce next year?

4.5 We believe that the problem of accommodating public expenditure to monetary targets next year may be much bigger than colleagues have so far realised. This may not emerge until the first round of public expenditure discussions in July. If we are right, an acute pay problem exists not only for the Civil Service, but also for the other public services. Failure to solve it will mean further arbitrary public expenditure cuts.

4.6 We think the best chance of keeping Civil Service pay increases to a manageable level next year may be through explaining the Transition process and ensuring similar, temporary, treatment as widely as possible in the public services sector. In convincing the public services of the need for such a reduction, we can point to a similar reduction in the private sector or, as seems more likely initially, mounting unemployment because of the failure to adjust.

5. TIMING

5.1 Much of the public services sector settles on 1 April. By this time, we hope that the downward trend of prices will have been established. Private sector pay settlements may also have begun to adjust downwards. But there are two important exceptions: local authority manuals (November); and NHS ancillaries (December). Should we be considering moving these dates? If all public services settlements were on the same date, it would make common treatment of them easier. (We believe these arguments could be extended to make a case for synchronising all pay: private and public sector. E Committee last July recognised the advantage of moving in this direction, as the CBI has advocated. There are many other arguments which could be adduced in favour of this.)

6. PUBLIC SERVICES SECTOR

6.1 The Chancellor has outlined one possible approach, but has not spelled out how it would work. Another possible approach would be to adopt equally tough cash limits for the different parts of the public services sector, without denying the possibility of a return to comparability when the Transition Phase is over. This rigid approach could consist of cash limits calculated to allow a similar percentage increase. Another variation would be a clearly-expressed limit for wages in the public services sector.

6.2 A further alternative would be a policy for thepublic sector expressed as a real cut of X%, with a guarantee to make up a few percentage points if the inflation rate turned out higher than anticipated. The CPRS paper suggests an interim settlement. No doubt there are other possibilities if colleagues accept that comparability cannot be reconciled with the need for a strict cash limit.

CONCLUSION

This is a complicated problem, interconnected with every other part of the jigsaw puzzle: cash limits, public expenditure, trade union power. It is necessary to address it in terms of the Transition Phase. We are still only in the process of getting the whole problem into focus. Much more work will be needed, but the first step is to get greater agreement on its real nature.

I am sending copies of this note to the Chancellor of the Exchequer, the Lord President, Sir Robert Armstrong and Robin Ibbs.

JOHN HOSKYNS

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SECRET

P.0267

PRIME MINISTER

PUBLIC SECTOR PAY
(E(80) 46, 47, 48 and 49)

BACKGROUND

You will recall that you held an ad hoc discussion on public sector pay issues with a number of your colleagues on 19 May. The Chancellor's paper (E(80) 46) discharges the remit he was then given. In addition you have a Note by the CPRS (E(80) 49) commenting on the Chancellor's paper; a paper from the Lord President of the Council (E(80) 48) on Civil Service Pay; and a further Note by the Chancellor (E(80) 47), prepared jointly with the Paymaster General and Bernard Ingham, suggesting a campaign of public education about pay. Taken together these papers represent a formidable range of ideas about a formidable and complex subject. You will want to decide as discussion progresses whether, and if so which, decisions can be taken at this meeting. Obviously the more ground which can be cleared the better. But further work and further meetings may well be needed before an adequate total package can be achieved.

2. The Chancellor's paper is an amended version of the draft you saw earlier but is still disappointing. In particular it lacks clarity both in analysis and prescription, it dodges some important issues, and it is weak on the practical realities. For example:-

(a) The objective: This must be to end up next year with the lowest possible pay bill in the public sector consistent with avoiding disruption which would cost more than it would save and without creating unacceptable problems for the future. Although the Chancellor discusses a range of techniques to this end he nowhere assesses how effective they are likely to be, or balances risks against potential benefits. In your summing up of the May 19th meeting you asked for such an analysis but the Chancellor has not provided it.

(b) The central premise: The Chancellor's paper argues that what happens to public sector pay next year will have a direct influence on the outcome of pay bargaining in the private sector. This is a common assumption but is not easy to reconcile with the effects of monetary policy on the private sector. Of course the time lag inherent in comparability poses a problem and of course the Government needs to show that it is doing its bit over the whole field of its responsibilities. But there are dangers in basing policy on unproven assumptions particularly if the policy is to be pushed to the point of confrontation.

Rewriting their terms of reference.

(c) "Dethroning" comparability: The Chancellor's paper gives the impression that "dethroning" comparability, while maintaining it as one element in the system, is the key to success in reducing the real value of public service wages. But he does not explain what he means by "dethroning" in practical terms (just how would the Civil Service pay agreements need to be amended?). Nor does he explain how the creation of a wider margin for negotiation (the inevitable effect of "dethroning") would lead to a lower level of settlements. Certainly many in the public service unions think that they could do better outside the straitjacket of comparability by bargaining and confrontation (and it is significant that the Local Authority and Health Service unions show no signs of wanting to repeat last year's "Clegg" experiment). With due respect it is not enough to assume, as the Chancellor appears to do, that setting tough cash limits is the end of the matter. The prime casualty in confrontation could be the cash limit system. Once again, an informed guess at the likely magnitudes of the problems would be of considerable help to you and your colleagues. As Mr Biffen said at your meeting of 19 May, the cash limit itself is the key variable. To set it in a vacuum is to risk repeating the BSC experience on which John Hoskyns reported to you some weeks ago.

(d) Police and Firemen: The Chancellor says rather lamely that "these groups require more consideration than I have so far been able to give." But it is presumably unthinkable to set about reducing the real value of Forces' pay without also tackling Police and Firemen. Alternatively, if all three groups are excluded from the new arrangements, the arguments about comparability in the coming 12 months relate solely to the Civil Service, the Doctors and Dentists and the TSRB groups, with the heart of the public sector pay problem - in the massed ranks of the employees of Local Authorities, the National Health Service and the Nationalised Industries - left to be dealt with, indirectly through RSG and EFLs. Early decisions on the Police and Firemen could clarify the dimensions of the problem.

(e) The future of "Clegg" etc: The Chancellor, surprisingly perhaps, comes down in favour of keeping something like the Clegg Commission in existence and possibly even amalgamating all of the present disparate pieces of pay machinery into a single whole. But he does not pursue his thought very far nor does he begin to explore the practical problems. It is perhaps worth making the point that the "Clegg Commission" as such has no separate supporting machinery (it relies on the Office of Manpower Economics and to a degree on PRU). It is not therefore impossible to envisage abolishing "Clegg" (which is in any case running out of work) while reviewing and revising the remaining machinery. At the same time it must be remembered that any attempt at creating a single body to take over the work of the PRU, the OME and the Review Bodies proper could run into formidable difficulties with their clients - eg the Doctors and Dentists. Perhaps the aim should be a common source of information and expertise rather than a single all-embracing institution. A good deal of work needs to be done before Ministers can sensibly come to decisions.

3. Of the other papers before the Committee, that from the Lord President (E(80) 48) is a powerful defence of the present Civil Service arrangements, coupled with a number of ideas as to how they might be improved. As far as the Civil Service is concerned, Ministers have a clear choice between the Lord President's approach and that sketched out by the Chancellor.

4. The CPRS paper (E(80) 49) introduces an interesting new idea in that it suggests that public service pay next year be tackled as a two-stage operation with interim settlements on the due dates and final settlements later when the downward trend in private sector pay will have become clearly established. As such it is an ingenious attempt to get over the "time-lag" problem in comparability. But it raises two problems: negotiability (which is essentially a matter of managerial judgement); and a shift from comparisons - formal or

otherwise - with the past to comparisons with the "going rate". If Ministers are attracted by this possibility it will need to be assessed in much greater depth before a judgement can be made.

5. The paper on public presentation (E(80) 47) is unlikely to cause much dispute between colleagues. Clearly there must be an educational process, and clearly a great deal of thought and effort will be needed if it is to make an impact. But these are matters for the professionals. The main input needed from colleagues is of their time for a centrally-mounted campaign presumably co-ordinated by the Paymaster General.

HANDLING

6. The main problem is likely to be to get your colleagues to focus coherently on the issues before them. It is perhaps inevitable that you should invite the Chancellor to speak first to his two papers, followed by the Lord President and Mr Ibbs. Thereafter, however, I suggest that you should try and focus discussion on those questions which there is a reasonable chance of settling now. For the rest it will be sufficient to commission further work.

7. Questions which it may be possible to settle at this meeting are:-

(a) The Civil Service: Do colleagues accept the approach of the Lord President in his paper or do they want to pursue the Chancellor's ideas of "dethroning" comparability? If the former, a clear decision is possible. If the latter, you will want to ask the Chancellor and the Lord President jointly to consider the practical implications of the Chancellor's ideas for the renegotiation of the Civil Service pay agreements. If however colleagues are unwilling to choose at this stage, more factual work will need to be done (see paragraph 9(a) below).

(b) Police and Firemen: Do colleagues agree that the pay arrangements for the Police and Fire Service should be re-examined with a view to breaking "index-linking"? If so, the Home Secretary and the Chancellor of the Exchequer should be invited jointly to produce a paper on what might be done.

(c) The Armed Forces: Do colleagues agree that the Terms of Reference of the Armed Forces Review Body should be revised to "dethrone" comparability (bearing in mind that there is no scope for negotiation)? If so, the Secretary of State for Defence and the Chancellor of the Exchequer should be invited to produce proposals.

(d) The TSRB groups, including MPs: The Chancellor raises the question of whether the two reports from the TSRB expected later this month (one on the pay of senior Civil Servants, the senior Military, Judges and Nationalised Industry Board Members, the other on the pay of MPs) should be regarded as the final stage of the present round - and therefore accepted - or be used to set an example for the beginning of the next round. No decision need be taken until the reports are to hand. But colleagues will be conscious of the problems which the MPs report is likely to raise. If there is a disposition to make an example of the groups covered by these reports, the issues will have to go to Cabinet (both because of the Parliamentary implications and because Ministers with responsibility for particular groups - eg the Lord Chancellor for Judges - will want their say before final decisions are taken).

(e) The CPRS approach: If Ministers are attracted by the CPRS proposal it could be remitted to them for further study, in consultation with the relevant Departments, with a report back to the Committee in good time before the summer recess.

CONCLUSIONS

8. In so far as discussion allows, you will want to record specific conclusions on the points identified in the two preceding paragraphs. In addition it will probably be possible to record specific endorsement of the paper on publicity - E(80) 47 - and, depending on the progress made, to set a timetable for a further meeting or meetings of the Committee to bring matters to a conclusion, subject where necessary to endorsement by the Cabinet. The view the Committee takes on the approach to be adopted to the forthcoming TSRB reports will to some extent influence timing. If the implementation of these reports is to be regarded as a necessary, if unpleasant, consequence of past policies, your Committee has time to pursue its work in a fairly deliberate way. If on the other hand the inclination is to make an example of MPs and the other TSRB groups, there is a need for speed so that the decisions can be put in a broader context when they are announced - and the inevitable questions asked.

9. Other work which, subject to the discussion, might be put in hand includes:-

(a) Scenarios: The Chancellor should be urged to produce examples, as asked for at your meeting of 19 May, of the numerical relationship between pay, cash limits and the PSBR for each of the main public sector groups, together with an indication of the likely costs and results of industrial disputes in them. It is obviously far too soon to come to specific decisions about cash limits or EFLs for 1981/82 but an idea of the magnitudes involved would help colleagues to choose between the policy options open to them. This work will be particularly important if colleagues feel, as they may, that they do not know the sums of money at issue.

(b) Institutions: If the Chancellor's ideas of future institutional arrangements (including the continuation of "Clegg") are to be handled effectively, Ministers need a properly worked out set of proposals - including proposals for amending the Composition and Terms of Reference of the Review Bodies. The Chancellor could be invited to arrange for officials of the relevant Departments to produce a report. Unless colleagues feel disposed to abolish "Clegg" at once there would be advantage in waiting for such a report before coming to a final view on the Standing Commission. Abolition or continuation could then be set publicly in a coherent framework.

10. In addition it would be as well to record a specific conclusion inviting the Chancellor to bring his proposals for individual cash limits, including those for the RSG and for the pay content of EFLs, to the Committee in good time for their wider implications to be studied before final decisions are taken.

P Le CHEMINANT

Cabinet Office
4 June 1980

cc Mr Duguid

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

4 June 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON SW1

Dear Tim,

PUBLIC SECTOR PAY

At the Prime Minister's meeting of 19 May on public sector pay policy my Secretary of State, who is at present abroad, was invited to send the Prime Minister a note giving examples of overmanning and restrictive practices in the public sector areas for which he is responsible.

... A note is enclosed. This illustrates the general position on restrictive practices and overmanning in respect of the nationalised industries and refers to the action that is being taken by the management of those industries to increase productivity. For completeness it also describes the situation within BL and Rolls Royce.

I am sending copies of this letter and of the attachment to the Private Secretaries to the other members of E Committee and to Sir Robert Armstrong.

Yours ever,
Pete.

PETER STREDDER
Private Secretary

OVERMANNING AND RESTRICTIVE PRACTICES IN THE PUBLIC SECTOR

Note by the Department of Industry

POST OFFICE

i) Postal Business

1. The recent report by the Monopolies and Mergers Commission on the Inner London Letter Post listed a number of restrictive practices. The two most significant practices are the refusal of the Unions to agree to work-measurement and their bar on casual labour. Others include:

   a) leaving work before the shift officially finishes;

   b) refusal to divert mail to under loaded offices;

   c) unnecessary overtime;

   d) inflexible procedures on the revision of manning levels and insistence on these levels even when the amount of work does not justify them.

The Post Office has estimated that productivity could be improved by some 10-20% nationally and up to 30% in some areas. If it were raised just to the levels of 1972-3 (not themselves very high) 3,500 fewer employees would have been needed in 1978/79.

2. In the light of the strictures in the Commission's Report, and of the threats to remove the postal monopoly, the Union of Postal Workers has now agreed to a new productivity scheme. Although it is early days yet, the service has improved recently because of better cooperation by the unions and the Post Office management seems determined to adopt a tougher line in future.

ii) Telecommunications business

3. The Department is not aware of any specific instances of restrictive practices or overmanning in Post Office Telecommunications, but indications are that labour productivity is lower than that in major telecommunications systems abroad. The Telecommunications Business Plan for 1980-85 forecasts a continuation of rapid growth and accelerating technological change. Throughout the next five years manpower is planned to increase only marginally but this may still mask instances of overmanning in certain areas. The proposed relaxations of the telecommunications monopoly should prove a spur to productivity especially when coupled with current skilled manpower shortages.

BRITISH STEEL CORPORATION

4. Productivity is low by European standards. Overmanning is buttressed by 'standard manning agreements' and a guaranteed working week which tend to keep labour costs higher than they should be. The Iron and Steel Sector Working Party estimated that in 1978 the production of 1 ton of crude steel in the UK required 10.9 man hours - about twice that needed by our European competitors notably West Germany (5.9 man hours) France (6.4) Italy (5.2) Belgium (5.2) and Luxembourg (4.8).

5. BSC's proposals to shed 50,000 workers within a year depend partly on closing excess capacity and partly on increasing productivity at remaining plants. The recent 3 month steel strike took place mainly because management insisted that a large part of the pay increase must be financed by local productivity improvements which, BSC estimate, should result in the loss of some 12,000 jobs.

BRITISH SHIPBUILDERS

6. A lack of flexibility between trades, a refusal to accept dilutees, and traditional manning practices have long inhibited progress in the shipbuilding industry. Management organisation, and particularly a lack of competent middle management, has also been partly to blame for the fact that British Shipbuilders yards have on average lower productivity than most, if not all, of their European competitors. A measure of the degree of overmanning is the fact that BS secured their unions' agreement to reduce their total employment of about 75,000 by 3000 as part of their 1980 wage agreement. They also secured agreement to reduce overtime working to not more than 7½%, on average, of normal hours worked. Both these actions came on top of their current contraction programme for merchant shipbuilding which will reduce employment in that sector of their business from 27,800 to about 18,000 in two years.

7. Overmanning is one of the reasons why BS have lost money each year since they were set up in July 1977: low productivity generally is one of the reasons why BS have difficulty in competing, particularly on delivery. But BS have made a concerted effort to raise their productivity. Their 1979 and 1980 pay agreements were made conditional on the achievement of certain productivity gains, including redundancies, a ban on most adult recruitment, agreement to temporary transfers and the ending of restrictive practices on overtime. They are running a sustained publicity campaign at each yard and have set up self-financing productivity schemes in most subsidiary companies. Few of these schemes are yet paying bonuses and no significant gains in productivity have yet been seen. This is not surprising because orders have been lacking in the current recession, and morale has also been affected by the contraction programme.

BL LTD

10. As members of the Engineering Employers' Federation BL have had to live, as the engineering industry generally, with the working practices of the Confederation of Shipbuilding and Engineering Unions, e.g. men can be moved from one job to another on an assembly line, or line-speeds altered, only with extreme difficulty. An example of a restrictive practice involving another union (TASS) was the refusal until recently to allow design work on BL vehicles to be contracted out. This delayed work on BL's planned new medium sized car. Despite the efforts of the present Board, there is still considerable overmanning in BL. The company estimate that it employs proportionately about one third more men than its European competitors, whose productivity may be up to 50% better. BL's determination to increase productivity was shown by its imposition this year of a 5% wage increase on the majority of its workforce coupled with improved working practices and scope for productivity bonuses.

BRITISH AEROSPACE AND ROLLS ROYCE

11. It is not clear that these two aerospace concerns suffer particularly from restrictive practices compared with the rest of UK engineering industry. But undoubtedly productivity is much lower than that achieved by competitors abroad. The Aircraft Group of BAe has called for a 10% increase in efficiency over the next five years. Rolls Royce, under a productivity-geared wages scheme introduced in 1978/79, recorded improvements of 10% and plan to raise personal productivity by 24% in total by the end of 1981. In addition shortage of skilled workers will put both BAe and Rolls Royce under considerable pressure to improve productivity over the next four years.

Department of Industry
3 June 1980

cc B. Ingham

cc Cabinet Office

Prime Minister.
for 'E'.

D.J.S. Collinge
Duty clerk
4/6/80.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MS

INFLATION AND PAY

In recent weeks commentators and critics have been probing the Government, trying to find inconsistencies between our emphasis on monetary control as fundamentally necessary if inflation is to be mastered, and what we have been saying about the impact of pay increases on the price level. Terry Burns here has now prepared the attached very helpful paper which puts the impact of pay on inflation in the wider context. You and the other members of E Committee may like to see it as background to our discussion of public sector pay on Thursday, 5th June.

2. I think it important to stress the temporary and transitional nature of much of the present inflation. This reflects once-for-all action by the Government to get nationalised industry prices and rents on to a sounder basis, and to shift some of the burden of taxation from income tax to VAT. Most of these special factors are now behind us, and the monetary side of the economy is under control. If monetary growth now affects inflation with the normal lags, there will be some unemployment as a consequence; action by wage bargainers which lengthens those lags will inevitably make unemployment worse. Conversely, action to shorten them will reduce the unemployment problem.

3. Another important message in the paper is that the high exchange rate does not call for specific action by the Government; rather it has clear implications for action by those operating in the market place - lower costs

/(particularly

(particularly wage costs) and higher productivity are essential if competitiveness is to be sustained.

4. Within this framework the market forces for pay deceleration should be felt in the traded goods sector - labour intensive manufacturing will be most affected. Thereafter the rest of the private sector should follow the deceleration in manufacturing pay as the labour market weakens. What does this imply for pay in the public sector? One approach would have public sector pay decelerating in line with average private sector pay; this would not cause distortion within the public sector, but would still involve moving away from the current backward-looking comparability system and would still leave manufacturing facing the brunt of the pay battle. The alternative would be to try to bring public sector pay more into the front line, along with pay in manufacturing. This would involve not just ensuring that comparability operates on a current rather than a backward-looking basis, but also setting cash limits figures to take account of the varying levels of pay in different sectors and enforce the chosen level of pay increases. The course we should steer is the subject of our discussion later this week.

5. I am copying this minute to other members of E Committee.

Martin Hall

p.p. (G.H.)
4 June, 1980

[Approved by the Chancellor of the Exchequer and signed in his absence]

CONFIDENTIAL

INFLATION AND PAY

It is essential as we approach the difficult problems of pay to have a coherent explanation of the current rate of inflation, and its implications for the coming pay round. A public explanation that exaggerates the 'blame' for the recent high rate of inflation on excessive pay increases could be shown to be misleading - because much of the rise in the retail prices index over the past year stems from increases in energy prices, rents, the mortgage rate and VAT - and this would blunt the crucial message that moderation in pay restraint is essential to preserve jobs. Moreover, it would treat inflation in a totally different framework from the broad thrust of Government policy.

2. The rate of inflation at any time can be thought of as having two components:

First, some part of the increase in prices will be due to the underlying growth in money supply, allowing for lags;

Second, a further part will reflect the influence of a mass of special factors many of which will be temporary. These will include changes in world oil and commodity prices, in indirect taxes and in administered prices of, for example, the nationalised industries and local authority housing.

Over a number of years the influence of the second component should be zero, but in particular years it can have a significant positive or negative effect.

3. Inflationary pressures take time to build up. The underlying causes usually lie in the past. The recent rise in inflation is no exception. It reflects primarily the acceleration of monetary growth and fiscal expansion during 1978 and 1979. Whereas sterling M3 rose at an annual rate of 7 per cent between mid-1975 and mid-1977, it increased at more than twice that rate between mid-1977 and mid-1979 (if allowance is made for the effects of the bill leak).

This acceleration was associated with a major change in budgetary stance, involving increased public spending and tax cuts initiated in the autumn of 1977. This monetary and fiscal pressure continued until the autumn of last year, as the June 1979 Budget had the effect of concentrating tax reductions in the first half of the financial year. The problems of monetary control have put considerable upward pressure on interest rates. This in turn has raised the mortgage rate, which has a direct impact on the RPI.

4. However, a large part of the recent acceleration in inflation is attributable to special or temporary factors. The most important of these are:

(i) World price pressures from the rise in commodity prices. This is largely the effect of the further doubling of oil prices which has had a direct effect on retail prices equivalent to its effect in 1974. To some extent, the UK has been sheltered by the appreciation of sterling. Nonetheless, in sterling terms, wholesale input prices (including oil) increased by 26 per cent over the last year; in contrast, between 1977 and 1978, they fell by just under 4 per cent.

(ii) The necessary and overdue reduction in subsidies and nationalised industry external financing limits brought about some large increases in "administered" prices including council house rents. In some cases, particularly, energy, there was severe under-pricing by the nationalised industries and this, if it continued for long, would lead to a serious waste of scarce resources. Hence our policy decision to correct underpricing on a phased basis. There is an obvious contrast here with 1978, when downward pressures on local authority rates, rents and nationalised industry prices reduced the published inflation rate - but stored up enormous problems for the future. When mortgage rates come down, the housing element in the RPI will benefit.

(iii) The one-off switch from direct to indirect taxation announced in the June 1979 Budget added about 3½% to the recorded inflation rate (the year-on-year change in the RPI) but this will drop out of the figures later this summer.

(iv) The backlash effect from the previous administration's attempts to hold down pay (including public sector pay).

5. A framework that places important emphasis on monetary behaviour as the long-run determinant of inflation can still allow for important short-run effects following sharp changes in particular prices or expenditure taxes. The result of these increases should be a "once and for all" increase in prices, but there can be longer run effects if pay bargainers gain compensation for the price increase. The temporary factors described above have all been adverse in their effect on prices. Most of them, by their very nature, reduce real personal incomes. There is, for example, an inevitable reduction in real take-home pay involved in making good the public sector pricing anomalies. However, a notable feature of the present pay round has been the unwillingness of pay negotiators to accept any increase below the increases in the RPI, despite cuts in income tax.

6. While the implication of this analysis is that it is easy to overstate the extent to which private sector pay settlements have added to the current inflation rate, this is certainly not to deny that if earnings growth had been lower in 1979 inflation would now be lower. The lags in the process mean that prices are not being affected by the current and previous wage rounds. The current pay round will continue to have implications for prices and unemployment later this year and beyond. The outlook for prices is now worse than forecast earlier in the year. The implications for unemployment are also stark; the enormous and potentially suicidal error that is being made by pay bargainers is to think that they can justify pay increases in line with the RPI. This ignores the fact that a considerable part of the current rate of price increases is due to factors that do not justify compensation in the form of higher pay. It is vital to get this message across.

7. The policy decisions on VAT, nationalised industry prices and public sector charges were all taken for their beneficial effects on the "supply side" of the economy. It is important that they be

seen as a special or once-for-all adjustment if continuous upward pressure on the inflation rate is to be avoided. The likelihood is that unless behaviour changes these decisions will make the task of reducing inflation that much greater - both in tersm of the time lags and lost output and employment. These implications of the current level of pay settlements make an overwhelming case for urging pay restraint pervasively, and not by references to small and nicely calculated amounts or percentages.

8. It is also important to recognise that even though wage claims may be 'explained' by previous monetary behaviour and the impact upon the price level of the temporary factors mentioned above this does not justify such increases. The transition problems of bringing down inflation are much smaller if wages are determined by reference to current and future monetary growth rather than being influenced by the events of previous periods. Everyone always thinks pay moderation is for the other man and average pay increases turn out too high - and with it unemployment also turns out unnecessarily high. Turning attention from what is past to the implications of current (and future) monetary growth is a vital part of the campaign on pay.

9. There are several clear signs that pay settlements have been sufficiently rapid to create major unemployment problems.

(i) Over the three years since Spring 1977 earnings have risen by a total of 12 per cent more than prices. Over the same period national output, including the output of North Sea oil, has risen only by 5 per cent. The inevitable result is severe pressure on company profits.

(ii) In some major competitor countries wage earners are accepting pay increases well below the going rate of inflation; normally in the industralised countries pay increases are 3 per cent more than price increases, reflecting the gain in productivity. This year earnings increases are on average 3 per cent less than the current rate of inflation as consumers recognise that they cannot have compensation for oil increases. In the UK we cannot use this argument, as we are virtually self-sufficient in oil, but we have our own special circumstances.

(iii) Over the past year the exchange rate has risen by about 10 per cent. And yet earnings growth in the UK has been about 10 per cent faster than the average for other countries. The result is a serious loss of competitiveness. A major loss of jobs is inevitable.

10. As unemployment rises rapidly in the months ahead it is necessary to link this effectively to the costs of high wage settlements. The exchange rate should be shown to be a central feature of the need for pay restraint. There is no point in employers and employees complaining to the government about the exchange rate. What is important is that they react to the exchange rate and that implies negotiating lower pay settlements.

With the Compliments
of the
Private Secretary
to the
Secretary of the Cabinet

C.A. Whitmore, Esq.

Cabinet Office,
London, S.W.1.

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Econ Pol. 18

~~Mr Wolfson~~
Mr Ingham SI 21/5
Mr Hoskyns
To see.
21/5

Ref. A02221

21st May, 1980

21 v.

Dear John,

Public Sector Pay Policy

I enclose a copy of the record of the Prime Minister's meeting on Monday, 19th May to discuss Public Sector Pay Policy. I should stress the sensitivity of the record and should be grateful if you and the other Private Secretaries to whom I am sending copies could ensure that it is only seen by those who need to see it. You might wish to consider treating it in a similar way to a Limited Circulation Annex of Cabinet Minutes, namely ensuring that the record is not copied and that it does not leave your Private Office.

I am copying this letter and the enclosure to John Wiggins and Alastair Pirie (Treasury), Ian Ellison (Department of Industry), Richard Dykes (Department of Employment), David Edmonds (Department of the Environment), Don Brereton (DHSS), Geoff Green (CSD), Gerry Spence (CPRS) and John Hoskyns (No. 10). Copies also naturally go to Clive Whitmore.

Yours sincerely,

Stephen Whittle.

for (D.J. Wright)

J.A. Chilcot, Esq.

NOTE OF MEETING HELD AT 4pm ON MONDAY 19 MAY IN THE PRIME MINISTER'S ROOM AT THE HOUSE OF COMMONS TO DISCUSS PUBLIC SECTOR PAY POLICY

PRESENT:

The Prime Minister
Secretary of State for the Home Department
Chancellor of the Exchequer
Secretary of State for Industry
Secretary of State for Employment
Secretary of State for the Environment
Secretary of State for Social Services
Chief Secretary, Treasury
Minister of State, Civil Service Department
Mr J R Ibbs, CPRS
Mr J Hoskyns, No:10 Policy Unit

Secretariat:

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

The Meeting had before it a paper on Public Sector Pay Policy by the Chancellor of the Exchequer, circulated under cover of a letter of 15 May to the Prime Minister's office; a paper by the Minister of State, Civil Service Department on the Pay Research System, circulated under cover of a letter to the Prime Minister's office of 16 May; and a Report by Officials on the prospects for industrial trouble in the next pay round, circulated under cover of a minute of 15 May to the Prime Minister from the Secretary of the Cabinet.

THE PRIME MINISTER said that the purpose of the meeting was a preliminary and general discussion on the Government's approach to dealing with pay in the three public sector areas: the Civil Service, the nationalised industries, and the local authorities. Her meeting with Lord Shepherd, the Chairman of the Pay Reasearch Unit (PRU) Board, on 14 May had revealed considerable deficiencies in the role of the PRU Board and weaknesses in the application of fair comparisons in the Civil Service. The analogues which were the basis for comparability with the private sector were chosen in negotiation between the two sides of the Whitley Council, and included too many public sector bodies and too few small firms. The process was not in practice a true measure of comparability. All parts of the public sector expected to be treated well, even when living standards were falling generally. In contrast the pay of employees in the private sector depended on how well their firms were doing. She had asked Lord Shepherd to set out his views in writing for changes in the pay research process and in the role of the PRU Board.

THE CHANCELLOR OF THE EXCHEQUER said that it was crucial to influence pay settlements in the public sector where the Government was responsible directly or indirectly. If the Government's monetary targets were to be met, the 1981-82 cash limits for central and local government had to be struck at levels below those in previous years. These cash limits should be given primacy; and the Government should not accept an obligation to allow pay in the public services to be determined solely be comparability. This would be so even if the present system of comparability could be improved. But he did not recommend abandoning comparability altogether; otherwise the unions would continue to make their own calculations and in due course demand a major review to restore what, in their view, they had lost by comparison with the private sector. His preference, therefore, would be to attempt to dethrone comparability so that it survived as only one among many considerations in pay determination. The Government would take it into account in negotiations but would not be bound by the results. For the nationalised industries it would be necessary to use a variety of weapons: External Financing Limits; more pressure on Chairmen to hold down settlements; and the development of performance targets and further references to Monopolies and Merger Commission on efficiency. The Rate Support Grant should be used to set the framework for limitations on pay in the local authorities. This approach should be accompanied by an intensive public campaign to create an atmosphere in which pay bargaining beginning in the autumn would be at levels very substantially below the rates of the past year.

In discussion the following main points were made -

a. It was agreed that the terms of reference and the method of operation of the PRU should be reviewed urgently. However, the question of how the method of comparability might be improved was secondary to that of whether comparability should continue to have a role in the determination of public sector pay.

b. There were serious objections to abandoning the pay research system altogether in the Civil Service. The militants in the Civil Service unions had always wanted it abandoned, and to do so would be to play into their hands.

There would be an early and major confrontation. The choice would then be either to fight the changes through, and to accept the disruptions which would result, or to retreat.

c. In making any changes to the present system it would be important to bear in mind the lessons of the late 1950s and early 1960s. Public sector pay had then been held down with the aim of influencing private sector pay. The private sector had not responded and public sector pay had lagged badly behind. This had led to confrontations with major public sector groups such as the nurses, the police, the doctors and prison officers, to embarrassingly large "catching up" increases, and to the creation of new institutions for determining pay in the hope of avoiding these problems. It was essential not to get into this cycle again. This pointed towards a compromise on the lines of the Chancellor of the Exchequer's proposal, whereby comparability studies would be continued but would be no more than one factor in the determination of pay. In future it would be necessary to be flexible and to recognise the fact that while there might be overmanning in some parts of the public sector there were shortages in others. The present structure of links between different grades should be broken.

d. On the other hand there was a danger that the approach recommended by the Chancellor of the Exchequer could lead to the Government getting the worst of both worlds. The comparability studies would tell the unions what in their view they ought to be getting, and the Government through the cash limits system would be telling them that they were to be denied those increases. All the signs were that pay was the one issue on which the militants in the Civil Service unions could hope to attract widespread support.

e. Hitherto the Government had tended to be reactive in dealing with public sector pay problems. It was now necessary to take the initiative and mount a campaign for improved productivity and the removal of restrictive practices throughout the public sector. The public generally, and the public sector unions in particular, should be brought to recognise that if national living standards were not to fall the present levels of public sector pay increases could not be continued. There would be a major task of negotiation to secure recognition by the Civil Service unions that in future comparability could not be paramount.

f. It would be helpful if the Departments of Industry, Employment and Environment could bring up to date their lists of over-manning and restrictive practices within the public sector.

g. The Secretary of State for the Environment was putting forward proposals separately to the Ministerial Committee on Economic Strategy on ways for securing improvements in the local authority field. He was also examining the method of determining pay by the water authorities. His Department would be discussing further with the Department of Employment the possibilities for getting better undertakings on working practices from the workers in the water industry.

h. One of the earliest, and most difficult decisions, facing the Government would be that to be taken at the end of June on the pay of Members of Parliament. The combined process of catching-up and uprating to 1980 levels was likely to point to high increases. However, it would be very difficult to avoid accepting these increases in view of undertakings which the Government had already given on the pay of MPs.

THE PRIME MINISTER, summing up the discussion, said that the next step would be for the Ministerial Committee on Economic Strategy (E) to consider papers on these questions. The Chancellor of the Exchequer should now prepare a paper for E, based on the paper before the meeting and taking account of the points made in discussion. He should include an analysis of the implications of the options for each of the main public service groups. This analysis should indicate, if possible, what might be the difference between pay settlements which the groups could expect if comparability were to be maintained and what they might get if his proposals were to be implemented. It should also indicate what might be the costs, results and likely course of pay disputes in the public sector as a whole which might result from following this course. It would be helpful to have a time-table of the critical dates on cash limits and External Financing Limits. The Chancellor of the Exchequer should also bring forward proposals, in consultation with the Paymaster General and her own Press Office, on a publicity campaign to create tthe atmosphere for pay bargaining beginning in the autumn. He should also make proposals for the future of Professor Clegg's Group on comparability and of other review bodies. The Secretaries of State for Industry, Employment and the Environment should send notes to her on examples of over-manning and restrictive practices in the areas for which they were responsible. The Lord President of the Council should bring forward proposals in due course for changes in the terms of reference and method of operation of the PRU taking into account the further letter which Lord Shepherd would be sending.

The Meeting -

1. Invited the Chancellor of the Exchequer to circulate to E Committee, in time for discussion on 5 June, papers on the lines indicated by the Prime Minister in her summing up of their discussion.

2. Invited the Secretaries of State for Industry, Employment and the Environment to send notes to the Prime Minister, with copies to members of E Committee, on examples of over-manning and restrictive practices in the public sector areas with which they were concerned.

3. Took note that the Prime Minister would arrange for the Lord President of the Council to report to E and to make recommendations on the terms of reference and method of operation of the PRU, taking account of the further letter which Lord Shepherd would be sending.

Cabinet Office

21 May 1980

2

17

SECRET

Qa 05026 — cc Mr Hoskyns / Mr Wolfson

Prime Minister

I agree with Mr Ibbs that we must go for what is possible. But we will pay a heavy price – politically and economically – if public sector pay ~~can~~ goes up faster than in the private sector in the next round (as para 5 suggests it might).

To: PRIME MINISTER

From: J R IBBS

Public Sector Pay Policy

1. During yesterday's meeting on Public Sector Pay I became concerned lest desirable changes envisaged should go further than actually would be attainable in the negotiating situations likely to exist in the coming pay round. I offer the comment as somebody who has hitherto faced rather similar problems as one of the parties in a negotiation.

2. I start from the point that the purpose of any proposed changes is to support the main strategy of reducing inflation. I agree that demonstrable progress on reducing inflation depends on pay settlements generally becoming lower and that the public sector must be brought down as strongly as is possible; the private sector cannot be left to achieve the necessary reduction on its own.

3. Obviously if comparability as the basis for a settlement can be replaced by collective bargaining with reasonable confidence that it will result in a lower outcome, then such a change is desirable. (This is particularly so if it also permits greater flexibility to take account of the forces of supply and demand.) Similarly if an unsatisfactory method of assessing comparability can be replaced, in instances where the introduction of negotiation is not feasible, by a more soundly based method, then the change should be made.

4. However, if the reality is that the forces and attitudes that would exist in a collective bargaining situation are likely to lead to a higher settlement, then a comparability system is probably preferable. Again, if revision of a comparability system is unlikely to be successfully negotiated, it may be better to stick for a while with the imperfect arrangement. These considerations appear particularly important during the crucial period when rising inflation has to be reversed and replaced by falling inflation. At this time it is important to win negotiations and to succeed when imposing changes. Failure to do so will extend beyond the immediate issue and damage the whole approach including the concept of cash limits. Once downward momentum has been achieved, greater risks can be taken in negotiations and in attempts to correct comparability arrangements.

5. I emphasise that I am not against driving down public sector pay as strongly as great determination can achieve. However, the test in each instance should not just be "is the change in method or the specific reduction in settlement desirable", but also "can it be achieved?". Any trials of strength need to be those which can be won. Provided public sector pay falls, it will not matter unduly if initially the decline is a little less than that in the private sector where the forces that can be imposed by monetary policy are greater.

?

6. I believe these arguments apply both to the public service sector and to the nationalised industries. I agree that as much pressure as possible must be brought to bear on the latter through cash limits but these cannot have quite the same force as potential bankruptcy has in the private sector.

7. Because I believe that success will depend on what is in the minds of the negotiators; on their attitudes and behaviour; I wholly support the Chancellor's wish to do everything possible to influence these through all the means at the Government's disposal.

8. I am sending a copy of this minute to the Chancellor and to Sir Robert Armstrong.

JK

20 May 1980

c. Mr. Alexander
Duty Clerk
Garden Rooms - for House

Econ PSI

PRIME MINISTER

The following will be attending the Prime Minister's meeting in the House of Commons at 1800 hours on Monday 19 May:

Foreign Secretary

Lord Privy Seal

Chief Whip

Leader of the House

Secretary of State for Trade
plus Roy Williams (Under-Secretary)

Secretary of State for Industry

Attorney General

Mr. Douglas Hurd

[illegible]

Dictated to Girl at HC.

No time otherwise to get the document to P.M.

KRB 19/5/80

19 May 1980

16

SECRET

Prime Minister

Qa 05025

12/5

To: MR LANKESTER

From: J R IBBS

Public Sector Pay Policy

1. The Prime Minister may like to know that the CPRS has a number of reservations on the Chancellor's proposals of 15 May, particularly in relation to the public services (central and local Government and NHS).

2. Of course, we agree with the Chancellor that pay settlements in the current round have been uncomfortably high. But we do not believe that the main problem rests with the public services. Had it not been for 'catching-up' for past phasing, the current round public service settlements averaging 14½ per cent could have been presented as a favourable outcome.

3. The Chancellor's preferred course is to impose tight cash limits as a means of reducing settlements in the public services but to retain the institutional structure of comparability as one (limited) factor in the process of pay determination.

4. The CPRS sees a number of difficulties in this course:

(i) It seems most unlikely that the status of, e.g. pay research and the Review Bodies could be changed by negotiation.

(ii) The changes would therefore have to be imposed. This could lead to confrontation, not only with the Civil Service but with such groups as the Armed Forces, the Doctors and Dentists, MPs, Judges, Nurses and the Police.

(iii) The policy would be seen as discriminatory. The comparability institutions would be producing the material for 'fair comparisons' and the Government would be seen to be disregarding it. Presentationally this would give the Government the worst of both worlds.

(iv) A discriminatory policy carries with it all the seeds of a future 'catching-up' problem, like that which has bedevilled the present round.

5. In short the CPRS does not believe that this approach would be tenable, or that it would be accepted as some form of 'middle ground'.

6. The Chancellor's fallback proposal is to abolish comparability altogether. In the view of the CPRS this could be a very 'high risk' policy:

(i) Negotiations would be seen in conflict terms by all the groups referred to in paragraph 4(ii) above. The potential disruption is immense.

(ii) Comparability would not, of course, be excluded from the pay negotiations. Each group would make its own (favourable) comparisons. Every sectional interest would pray in aid special factors in support of their own case.

(iii) It cannot be assumed that the Government could win against some of the groups involved; or that the settlements would be lower than if comparability were retained. Some of the public sector unions are already having second thoughts about comparability because they think they could improve their position in a trial of strength.

(iv) If cash limits were set, and breached, this would greatly damage the credibility of the cash limit system itself.

7. The CPRS therefore believes that Ministers should consider the alternatives very carefully before discarding or 'dethroning' comparability. A preferable solution might be to consider three groups:

(a) where no market exists (e.g. nurses and those covered by the Review Bodies), the CPRS believes that comparability is likely to remain the best answer;

(b) where sufficient of a market exists to justify collective bargaining, this should be the preferred solution, even though some groups were covered by Clegg last year (e.g. local authority and NHS manuals);

(c) a middle range between (a) and (b) for which the market is the preferred solution but for which an occasional reference to an expert and independent body may be useful (e.g. ambulancemen might be in this category);

8. Where comparability is retained, efforts should be made to:

(i) Seek to improve the standard of the comparability exercise, e.g. in relation to labour market conditions, the representativeness of analogues, efficiency and job security;

(ii) make sure that comparability is better defended and better understood. In particular it is important to explain the effect of lags on the pattern of private and public sector settlements.

9. Whichever course Ministers choose, however, the CPRS agrees very strongly with the Chancellor that there is a need for an intensive effort to influence expectations. This requires further work with which we should like to be associated. It is also for consideration whether there is a case for seeking to influence the direction of bank lending so that the present squeeze - already apparently having some effect on settlements in manufacturing industry - might be extended more widely, notably to service industries where settlements are still very high.

10. The Chancellor in his paper does not specify the extent to which cash limits might be used to bring the level of settlements below the comparable rate. Ministers may like to note the following orders of magnitude:

- a 5 per cent difference in the wage bill of the public services is worth around £1bn. on the PSBR
- a 5 per cent difference changes the average level of national earnings by some one percent and the RPI scarcely at all.

11. By contrast, the impact on inflation of settlements in the public trading sector is far greater, and the problem of control much more intractable. The CPRS agrees with the Chancellor, however, that there is no alternative to pressing ahead on broadly the same lines as this year. In addition, notwithstanding the desirability of an arm's length relationship, Ministers should exert as much pressure as possible on the Boards to adopt a tough stance.

12. I am sending a copy of this minute to Sir Robert Armstrong.

16 May 1980

Original returned to J. Hoskyns

16 May 1980

Tim Lankester

PRIME MINISTER

PUBLIC SECTOR PAY

Geoffrey's paper can do no more than open up a big subject. Public sector pay is an integral part of the bigger inflation problem - part knock-on cause, part effect. I suggest that public services pay is the top priority, since it is under greater Government control and is part of the "leading edge" of Government's own contribution to achieving monetary targets and reducing pay expectations in the private sector. As Geoffrey's paper says, every nationalised industry is different and we have pointed to some of the differences in our recent paper on the lessons of the steel strike, which suggests that much more collective thought is required on each one.

This paper therefore comments on public services only and not on nationalised industries or local government.

1. CASH LIMITS ARE NOT ENOUGH

Cash limits are really only the local equivalent of monetary targets, a necessary but not sufficient device. Higher pay and lower numbers within those cash limits are not therefore a satisfactory answer. They would represent worse value to the taxpayer and a knock-on effect in pay expectations and the ability to attract labour elsewhere.

2. HOW DOES PUBLIC SERVICES PAY ACCOMMODATE TO MONETARY TARGETS?

If cash limits accommodate to monetary targets, then public sector pay may do so. But it may not, with staff cuts (and to a lesser extent capital spending) absorbing the difference. The Public Expenditure White Paper shows a small, real, aggregate reduction each year. I assume that this will be reflected in a year-by-year nominal reduction, which is correspondingly greater than is necessary to accommodate to the monetary targets.

3. THE CHANCELLOR'S PROPOSALS

3.1 It must be right to dethrone comparability, which is a mistaken concept. That may lead to trouble with Civil Service unions and we should be thinking about whether likely strikes are winnable. Some institution for the preparation of data must be necessary, and Geoffrey's point about such an institution being allowed to build up a sound methodology rather than the Government relying on ad hoc bodies, is important.

3.2 Could the indexing of firemen and policemen be on a forward-looking basis rather than a retrospective basis, once inflation is declining?

3.3 In paragraph 23 of his paper, Geoffrey proposes an intensive campaign to create an atmosphere in which pay bargaining will begin at substantially lower rates in the next round. But since your recent discussion with Robin Ibbs, we have had some talks with CPRS about this problem of changing expectations and expectation. We think that a campaign of explanation is important. But it is very difficult in practice to persuade specific groups to act against their own interest, when their behaviour is based on the assumption that other groups will act on the assumption that other groups . . . etc. This recurring problem (the "Prisoner's Dilemma" familiar to students of Game Theory) cannot really be resolved by exhortation. And it is also difficult to see how the RPI can be dethroned, since this is the guiding norm to which they will look and we certainly don't propose a different one.

4. PUBLIC SECTOR PAY INEVITABLY RAISES LARGER QUESTIONS

4.1 In the end, pay in both public and private sector, both of which have tended to be habitually self-indexing, must somehow partially index themselves, during the period of the medium-term financial plan.

4.2 As noted in section 2 above, cash limits (and thus, other things being equal, public services pay) must be "de-indexed" more than their private sector equivalents. If that doesn't happen, the brunt of monetary deceleration will be borne by the private sector. We could then find that, having set out to try and make the private sector grow and the public sector shrink, we end up achieving the precise opposite; or, at best, we end up with significantly higher pay levels in the public sector, relative to the private (which would cause, during the transition process, private sector pay to be even stickier in its own de-indexation, making the whole transition process more damaging).

4.3 The question really is whether these things will happen, in line with our broad economic strategy for reducing inflation, with the present institutional arrangements as modified by Geoffrey's proposals. We may need to ask more "what if . . ." questions to see how, with public sector pay - and, indeed, pay as a whole - behaving in different ways, the numbers would come out for the national economy. For example what would happen if public service pay outturn was 20% - or 10% - in the next pay round? These simulations have probably already been done and could be looked at.

I have copied this minute to the Chancellor and to Robin Ibbs.

JOHN HOSKYNS

cc Mr Hoskyns 15

NOTE OF A MEETING HELD AT NO.11 DOWNING STREET, 4.00 P.M., TUESDAY, 13TH MAY, 1980

Present:

Chancellor of the Exchequer
Mr. Ryrie
Mr. Middleton
Mr. M.A. Hall

Secretary of State for Employment
Minister of State - Civil Service Department
Mr. D. Smith - Department of Employment
Mr. Burrett) Civil Service
Mr. Pestell) Department

The purpose of the meeting was to discuss draft papers by the Chancellor of the Exchequer on public sector pay and by the Minister of State, Civil Service Department on pay research, prior to circulation for a Ministerial meeting with the Prime Minister on 19th May.

2. The Chancellor said he thought that the separate papers on the Standing Commission on Comparability and on the Review Bodies could be subsumed in his own paper for the Prime Minister's meeting. The Minister of State (Civil Service Department)'s paper on pay research could stand separately. His own paper would be abbreviated and sharpened up.

3. The Chancellor summarised an internal discussion on public sector pay which had taken place the previous day in the Treasury. The future course of pay settlements was of crucial importance. If pay settlements continued to run ahead of the range for money supply growth in the MTFS, the reduction in inflation would be dangerously delayed. A major campaign to reduce expectations was essential. The Government could not contemplate a "pay

policy"as such; but the Government needed to bring home more persuasively the need to accommodate settlements to the anticipated growth in the money supply. Public sector pay both influenced the pay climate and was influenced by it.

4. Public sector pay could be conveniently divided into three categories: public services, local government and nationalised industries. Except perhaps in a changed approach to comparability, he had no dramatic new initiatives to propose. As far as the first two categories went, cash limits and the rate support grant must continue to be the main weapons of control. These should be fixed at the same time of year as in 1979, but at a level which permitted a much lower level of increase in the pay bill. Regretfully, the Chancellor had reached much the same conclusion about external financing limits (EFLs) for the nationalised industries. But the Government needed to be more skilful in presentation - serious errors had been made in the present pay round, e.g. by appearing to be well satisfied by the 20 per cent settlement with the miners, and by the leak of the pay assumption for the calculation of EFLs.

5. Two principles which customarily determined pay settlements in the public sector had to be dethroned. These were adjustment to match increases in the RPI, and use of pay research or comparability as the dominant factor in setting pay levels. The Chancellor thought that if the PRU and other comparability bodies were simply abolished, this would have the effect of building a delayed upsurge into the system. A massive catching up exercise was bound to follow sometime. As far as pay research for the Civil Service was concerned, the Chancellor thought that it should continue to be an element in determining the level of pay, but not the primary determinant. Similarly, he thought it would probably be a mistake to abolish the Clegg Commission, notwithstanding strong political pressures to do so. But it would need a new role, and new terms of reference. If it were abolished, there would be a resurgence of ad hoc investigations

into particular problems, e.g. Houghton, Wilberforce, etc. On balance, he thought there would have been marginal benefit in retention of the PIB. As for the various review bodies, it was again clear that comparability would have to play a role, but again less emphasis needed to be placed on it, probably by a change in the terms of reference.

6. The Secretary of State for Employment said he largely agreed with the Chancellor. He would like to study the papers further, but had one or two off the cuff points:-

(i) on nationalised industries, EFLs were both a difficult concept, and ineffective in controlling pay, since it was always open to the industries concerned to raise prices. This was a weakness in the system which merited closer study.

(ii) As use of cash limits as the determinant of pay developed, it was increasingly necessary to consult the relevant trade unions at an earlier stage in the negotiating process. He wondered whether sufficient effort had been made to reconcile cash limits with the outcome of pay research.

(iii) He agreed with the Chancellor on the need to retain some kind of deutero-Clegg; but the political problems in doing so would be formidable.

(iv) It would not be easy - or necessarily advisable - to diminish the primacy of pay research. It was the moderates in the Civil Service unions who supported the concept, and the extremists who were anxious to return to free collective bargaining. Abolition of pay research would encourage the extremists and lead to serious difficulties with the Civil Service unions.

7. The Minister of State (Civil Service Department) was in no doubt that the primacy of cash limits was inconsistent with the full pay research system. He was however opposed to the abolition of pay research; it would add to the measures the Government was already taking which were unpopular with the civil servants - on pensions, office conditions, numbers, and the phasing of the 1980 pay settlement - and encourage the extremists in the civil service unions. The Chancellor said that there was a school of thought in the Treasury that the PRU and the comparability bodies should be totally abolished, on the grounds that it was illusory to think that figures derived by pay research could exist in vacuo without forming the basis for a catching-up exercise sooner or later. The Secretary of State for Employment said that it was quite unrealistic and wholly the wrong time to abandon pay research. The Civil Service unions were swinging to the right. He agreed with Mr. Channon that abolition would greatly strengthen the extremists. All Ministers noted that it had in the event proved possible to reconcile cash limits and pay research this year. Mr. Channon added that the Civil Service unions had acquiesced in a number of unwelcome measures; but it was clear that pay was much the most sensitive issue for them.

8. The Chancellor said that it was not possible to depend on the private sector to lead pay rates down; the financial effects of the disruption implied would cause intolerable damage to the trading sector. The Government had to set a lead.

9. Mr. Smith commented on some of the points made by Ministers:-

(i) he would advise strongly against full consultation with the trade unions in advance of setting cash limits, especially in the case of the NHS, where the unions were very strong.

(ii) It was hard to envisage a continuing role for Clegg. The kind of circumstances where a reference might occur would be when, for example, salaries in the NHS had been squeezed by the cash limit, and the unions applied for a ruling from Clegg, knowing that if the NHS in fact exceeded its planned pay bill, there would be no effective action - e.g. closing hospitals etc which could be taken to enforce the cash limit.

(iii) It was likely that when Clegg reported at the end of July, he would suggest that his Commission be given a remit to consider more generalised comparability arrangements.

9. Discussion then turned to how the Comparability Commission, or a body like it, could be perpetuated. The Chancellor thought it would at a very minimum be necessary to change the terms of reference; oblige the Commission to take account of other factors than comparability; change the body's role, so that it became advisory rather than prescriptive; and change its membership. Mr.Smith wondered whether there might not be scope for rolling together the OME and the review bodies into one public sector pay commission. It was agreed that work should be set in hand on possible institutional arrangements for a continuing source of expertise on comparability.

10. Mr. Channon emphasised that whatever decision was finally reached by Ministers on pay research, the issue should not be fudged.

Conclusions

11. It was agreed that the Chancellor's paper, suitably modified, should go forward, together with a separate paper by Mr. Channon. There was general agreement with the Chancellor's approach, except that no conclusions were reached on the role that comparability should play in future arrangements. It was

S E C R E T

agreed that cash limits, the RSG and EFLs had to remain the prime instruments of control. Beyond that Ministers were agreed that the key issue to be brought before the meeting on 19th May was the extent to which, if at all, comparability - and thus pay research - should have a continuing role in public sector pay. The Chancellor undertook to ensure that his paper brought this out.

M.A. HALL
16th May 1980

Distribution:

Those present
Chief Secretary
Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Bailey
Mr. Dixon
Mr. Rayner
Mr. Ridley (o/r)

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Ref: A02194

SECRET

PRIME MINISTER

copied to:- Civil Service: Pay + Pensions: Pt2.

Public Sector Pay Policy

Flag A

Flag B

Civil Service May 79, Pay + Pensions.

Flag C

Flag D

Civil Service May 79 Pay + Pensions.

The meeting will have before it three papers - one by the Chancellor on public sector pay policy, circulated under cover of a letter to Mr. Lankester of 15th May; one by the Minister of State, Civil Service Department, circulated under cover of a letter to Mr. Lankester dated 16th May and dealing with the Pay Research System; and a report by officials on the next pay round, which you commissioned as background material and which I sent to you under cover of my minute of 15th May. You also have a minute, dated 16th May, - and not copied to colleagues - from the Lord President firmly plumping for the continuation of Pay Research in settling Civil Service Pay.

2. The Chancellor's paper is very much his own work and represents his own conclusions following a more detailed study of the options prepared by officials. This fuller report has not been circulated.

3. You might also like to bear in mind Mr. Hoskyns's recent report to you on the history of the BSC pay negotiations.

4. Discussion should centre on the Chancellor's paper as covering the wider ground, with Mr. Channon's paper as the second focus. The issues are very complex, not only in themselves but in their link with a range of other problems - e.g. nationalised industry EFLs - which are under separate consideration. They also impinge on, though the Chancellor's paper barely acknowledges this, nationalised industry prices. This discussion is therefore likely to be the first of several: in the nature of a Second Reading debate whose main purpose is to identify questions which need to be studied in greater detail before matters can be brought to the Cabinet.

5. One respect in which the Chancellor's paper is too summary is that it arrives at broad conclusions without considering all the practical details and constraints which in practice can determine the choice of policy options.

SECRET

6. To take an obvious example, the Government's commitment to the Armed Forces is quite specific. It is to "bring their pay up to full comparability with their civilian counterparts immediately and keep it there" (Manifesto, Page 29). The Chancellor's proposal - paragraph 9(c) of his paper - is to "dethrone comparability so that it survived as only one limited consideration in pay determination. The Government would take it into account in negotiations but would not be bound by the results". This paper does not make it clear that his proposal would mean reneging on the promise to the Armed Forces.

7. Similarly the Government has very specific commitments to the Police and the Fire Service which go beyond comparability to index-linking. It is not enough to say, as the Chancellor does in paragraph 12(d) that "Some sort of special treatment may still be appropriate for the Police and the Firemen". What special treatment? And can the Government defend and maintain it

Yes. against those who do not get special treatment? Colleagues need specific suggestions so that they can come to a political judgment.

8. Ministers will need to assess whether, if the Chancellor's proposals were accepted, the end result would be an improvement on the present position. It is all very well to say that we must set a cash limit - as the Chancellor does in paragraph 5 - below the levels of 1979-80 for Central and Local Government and then assume that they can be made to stick. But it takes two to make a bargain, and if that bargain is not struck by disciplined comparability it risks being struck by force. This may be a perfectly acceptable route for the Government to follow; but before embarking on it the Government needs to have thoroughly assessed the cost of the struggle, the chances of success and the penalties of failure (notably the breaking of the cash limit system). The essential message of John Hoskyns's piece on the British Steel negotiations was that the Government took some critical decisions in advance without fully realising their consequences and was lucky to emerge as the apparent winners - and that even then, greater thought in preparation could have led to a cheaper result more quickly. The report by officials on the prospects for the next pay

round carries, in its final paragraph, the same message. As the penultimate sentence puts it, "the common thread in these groups is that in each case it is prior decisions by Government, whether on pay-bargaining machinery or EFLs or cash limits, which will determine the climate in which decisions on industrial action will be taken". If the Government does decide that economic circumstances require a determined effort to "dethrone comparability" and to achieve a step-change downward in public service pay, it needs a worked-out strategy which extends not only forwards, to the chances of success and the penalties of failure, but also back to these critical prior decisions - so that they can be taken in the clear knowledge of the likely consquences.

9. There are two other points which might be made:-

(a) The first graph attached to the Chancellor's paper, while designed for a different purpose, shows that throughout the seventies local authority non-manual employees did rather better in relation to their private sector counterparts than did non-manual Government employees. But over this period, and within the constraints of pay policy when applicable, local government employees bargained for their pay while those of central Government relied on comparability. While only a rough comparison, this does not support the notion that free collective bargaining will give a lower result in cash terms than comparability. The graph at Annex C of Mr. Channon's paper makes the same point even more forcibly. We think of pay research as an engine of inflation; but we do not know what result an alternative would produce, and it is likely that Civil Service pay may have gone up by less than it might otherwise have done under a system in which the Civil Service unions, with their ability to disrupt the flow of Government revenues, the flow of benefits to the sick, the old and the needy and the vital role they play in supporting the Armed Forces, were tempted to exert the potential strength of their bargaining position.

(b) There are some important differences between a Government (or public service management) bargaining with its own employees and a private employer bargaining with his. One is that Government cannot go out of business. When the dust has settled Government has to go on: it still needs to collect taxes, pay benefits, defend the realm, nurse the sick, and so on. Another is that in carrying out these tasks, the Government has no alternative source of labour to that it already employs. There is no separate pool of Tax Inspectors, Post Office engineers, nurses or whatever to replace the existing staff. At the end of the day a bargain has to be struck with the existing group of employees.

10. I am not seeking to suggest that the Government can do nothing but accept the status quo. But I do think that the Chancellor's present paper is not an adequate basis on which to take decisions. A lot more work is needed before that point is reached. You could usefully commission further papers on:-

(a) An analysis of the results of comparability where it has been applied to public service pay over a period with the results of pay for similar groups determined by other methods, so that the results of a change in the system can be assessed, at least in terms of historical experience.

(b) A set of scenarios for the coming 12 months for pay, cash limits and manning in the main public service groups (Civil Service, local government and NHS) which would seek to explore the magnitudes of the numbers underlying the Chancellor's concern and the future choices for Ministers.

(c) A similar set of scenarios seeking to establish the costs, results and likely course of pay disputes in the public sector as a whole (including nationalised industries) as a guide to colleagues in deciding whether, and if so which, pay negotiations they would be prepared to push to the point of outright confrontation.

(d) Very important: A timetable of the critical dates on cash limits, EFLs and so on. This would be useful, not only for its own sake, but as a means of enabling Ministers to decide whether any alterations in the critical dates would enable them to exercise better control of events.

11. Of course colleagues may be prepared to say now that they accept Mr. Channon's - and the Lord President's - arguments. This would clear a major uncertainty out of the way. But the Chancellor for one may jib at losing the weapon of cash limits entirely in settling Civil Service pay next year, and unless he is isolated it might be better to let all of the issues wait for decisions until all of the work has been done and further discussion taken place.

12. In order to get this work carried out - in the great secrecy which would be necessary - you might care to entrust it to a small group of senior officials from the Departments principally concerned led perhaps by the Cabinet Office.

HANDLING

13. You will want to invite the Chancellor to speak first followed perhaps by Mr. Channon, Mr. Ibbs, Mr. Prior and then other colleagues at choice. In introducing the subject it would probably be enough to say that the occasion was essentially one for a Second Reading debate, as a basis for putting further more detailed work in hand; and that it will be necessary for the group to meet again on one or more occasions before conclusions can be put to colleagues.

CONCLUSIONS

14. Subject to the course of the discussion, you will wish to commission whatever further work seems appropriate.

D J Wright

(Robert Armstrong)

(approved by Sir R Armstrong and signed on his behalf)

15th May 1980

SECRET

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 May 1980

T. Lankester, Esq.,
No.10, Downing Street

Dear Tim,

PUBLIC SECTOR PAY POLICY

...... I enclose a copy of the Chancellor's paper for the Prime Minister's meeting at 4 p.m. on Monday, 19th May.

I am copying this letter, with enclosure, to the Private Secretaries to the Home Secretary, the Lord President, the Secretaries of State for Industry, Employment, the Environment, and Social Services, and to Alastair Pirie, David Wright and Robin Ibbs.

Yours ever,

Mike

M.A. HALL

SECRET

PUBLIC SECTOR PAY

Monetary Targets and Pay

1. The Government's economic strategy depends on sticking to its monetary targets and ensuring that the targets affect the general level of inflation as soon as possible. What happens in the labour market will influence both the speed at which the policy begins to have tangible effects and the transitional costs in terms of activity and unemployment of reducing inflation. Next year is of crucial importance. And our attitude to public sector pay will help determine the outcome both because of its direct influence on what happens in the private sector, and because it affects public expenditure and the PSBR - and so the overall effectiveness of the strategy.

The Outlook

2. Average settlements in the present round have been running at a higher level than was hoped. The latest weighted average level of current pay settlements for major groups monitored by the Department of Employment is about 17%, comprising 18% in the public trading sector, 14½% in the public services and about 18½% in the private sector. We are likely to go into the next pay round with the RPI showing year-on-year increases of around 19%. Average earnings may show an underlying increase of about 22-24%. The level of settlements, which excludes wage drift, will be less than this - around 18%.

3. There is no reason to doubt that the reduction in monetary growth which we are now achieving will affect pay bargaining in the private sector. But the speed at which this is happening is still too slow. The link between pay expectations and the RPI must be broken and an important element in this will be the way in which we settle the pay of our own employees.

Public Sector Pay

4. There is a clear distinction between:

a. central government services, where the Government's responsibility is direct;

b. local government, where our influence - substantial but not decisive - is through the RSG; and

c. nationalised industries, where we have indirect responsibility and very limited power.

Public Services: Cash Limits and Comparability

5. There is no alternative to cash limits as the basis for our policy for the public services. It is imperative that this year's limits for central and local government should be struck at levels below those of 1979-80.

6. We must not be so ambitious that we fail to take account of likely pay settlements as well as trying to influence them. And if cash limits set the broad framework for pay settlements there must still be some room for negotiation and manoeuvre. But we cannot accept an obligation to allow pay in the public services to be determined solely by comparability when there is no assurance that the cash cost can be reconciled with our public expenditure commitments. It is quite clear that we must give primacy to cash limits.

7. Comparability also has some obvious defects:

a. it works with a lag. As earnings come down in the private sector under the impact of monetary policy, earnings in the public sector remain high - because they reflect the previous year's settlements. There is a potential clash with cash limits which fits badly with the medium term strategy of reducing inflation.

b. it produces results which are extremely suspect.

c. it prevents us from encouraging hard pressed private sector firms because we cannot demonstrate that the government is pursuing an active restraint with its own employees. The graph at Annex A shows how well the public services appear to have been doing.

8. The various bodies and techniques involved in comparability are summarised in Annex B.

9. The Government is therefore faced with a choice:

a. We could accept the disadvantages set out above and retain but improve the present arrangements based on comparability. This might seem to offer the prospect of a quiet life, but I do not see how it could be made compatible with the sort of cash limit regime which I regard as essential to the overall success of our policies.

b. we could decide to scrap existing institutions and methods completely.

c. we could attempt to "dethrone" comparability, so that it survived as only one limited consideration in pay determination. The Government would take it into account in negotiations but would not be bound by the results.

I believe that the choice is between the last two of these options.

10. The case for abandoning comparability altogether is that so long as it remains in any form, it tends to re-emerge as the dominant factor. Abandonment seems to be the simplest way of establishing the primacy of cash limits. But I am hesitant about sweeping everything away. Comparability cannot be excluded from negoitations even if the present formal structure goes. Union negotiators would continue to make their own comparisons based on very slanted data.

11. My instinct is that course (c) above is right. I suspect that accepting comparability as an element, if only for historic reasons, but demoting its status will prove a more lasting solution. We should retain a fact finding capability and have an institutional strucutre which we could use if we needed it - rather than create another Wilberforce or Houghton as the need arises.

12. This is bound to lead to a messy solution. The elements would be:

a. renegotiation of the Civil Service Pay Agreement, to change the status of pay research so that it becomes one element only in the subsequent negotiation.

b. modification of the membership and terms of reference of the Review Bodies so that they take account of Government polciy and economic conditions.

c. The future of the Clegg Commission is a particular problem. Professor Clegg is leaving in the autumn. The Commission's list of customers is fast running out. The unions have no love for it. It would seem easy to let it go and gain the political credit for so doing. But we have to recognise that there may be a need for some organisation at least to provide data relevant to the pay of these public service groups. If so, it would be better to have a standing body which had been allowed to build up sound methodology, rather than being forced into setting up ad hoc bodies. I am therefore tempted to leave the Commission in being, but with a reconstituted membership and terms of reference: though it would not have much of a role for the immediate future.

d. Some sort of special treatment may still be appropriate for the police and firemen.

13. This is not intended to be a blueprint for the future. It might, for example, be possible to bring together the various organisations involved with comparability into a new body whose primary purpose would be to assemble the facts. This has considerable merit in its own right. Its powers would be not unlike those conferred upon the National Board for Prices and Incomes in Part I of the Prices and Incomes Act 1966. Part I of that Act was endorsed by the full ideological range of the then Conserviatve Opposition. This would at least have the advantage of providing a single and consistent source of information. And we may be able to sort out some of the major methodological problems in the present system at the same time.

14. If our re-designed system allows the gap between pay research - as modified and highly qualified - and the cash limits to be not too large, it may be possible to keep comparability running in this modified form. But the future depends on modifying the system so that the findings on comparability are used within the constraints set by cash limits. Having set a programme for manpower reductions we cannot expect to reconcile cash limits with the findings of pay research by looking to further reductions in Civil Service numbers.

15. I do not underestimate the difficulties of negotiating this - or any other departure from the existing arrangements - with the unions. But unless we move towards establishing the primacy of cash limits over comparability a public service pay round of 18-20% seems possible. We cannot just continue with what we have. My

approach seems to be the most durable of the alternatives. But if it is thought that this solution is unacceptable, I should prefer to abandon comparability completely and everything that goes with it. The main object must be to end up with a system in which the dominant feature is what the nation can afford as embodied in the cash limit. We cannot continue with arrangements which effectively mean that the government's need to control public expenditure and the PSBR can have no effect on public service pay rates.

Local Government

16. We have no ultimate control over pay settlements in local government. Local authorities are free to set their pay rates. But this year's experience has shown that we can exert a powerful influence through the RSG cash limit. There also seems to have been a hardening of local authority employers' attitudes about pay bargaining. Formal comparability is not institutionalised in local government in the way it is in other parts of the public service, and many local government groups that have tried the comparability road over the last two years are unlikely to repeat the experiment. I doubt whether there is more we can do here than adopt an appropriately tough cash limit, and leave the local authorities free to use such arrangements on the lines of paras 12 and 13 as survive.

Nationalised Industries

17. The nationalised industries present a different problem. We have no direct control over pay. Yet the operation of monetary policy does not produce the same constraints on pay as in the private sector particularly in the monopoly industries. We have therefore used external financing limits (EFLs) to apply some additional pressure, and then left it to management and unions in each industry to make a settlement at a level that the industry can afford in the light of all its circumstances including the EFL.

18. EFLs were announced for 1980-81 in November, several months earlier than in previous years, in time to exert some downward pressure on pay bargaining. But they cannot provide a rigid barrier against excessive pay increases. They are set on the basis of a range of assumptions , and cannot in themselves prevent higher

wage settlements than assumed - at the cost to an industry of lower profits and hence usually lower investment. The degree of pressure exerted on settlements varies according to such factors as the ratio of labour to total costs, and whether or not the industry is in a monopoly position, and thus able to pass on excessive costs through price increases.

19. So far in this pay round, the average level of nationalised industry settlements has been broadly in line with that in the private sector as a whole. EFLs may have had some constraining effect on pay negotiations, but we must recognise that the effect has been limited. (The table at Annex C compares settlements with the assumption underlying the EFLs).

20. EFLs are not a powerful weapon; but to make them as effective as possible in restraining pay we should:

a. include tight pay assumptions in the 1981-82 EFLs, to be announced this autumn (as this year these pay assumptions would not be made public).

b. put more pressure on chairmen (in private) to hold settlements down to those pay assumptions. This may have a limited effect but I think it will be essential if we are to achieve our aims.

c. press ahead with the development of performance targets for the industries' costs, including labour costs - something which can hardly be expected to produce useful results within the next year but should help in the longer term.

We could also consider tightening up EFLs by not allowing industries to switch finance within an EFL, thus turning a pay assumption into something more like a cash limit. I doubt if this would be enforceable and it would probably be a mistake to try it.

21. We must therefore press ahead on broadly the same lines as this year. This means setting EFL pay assumptions in the autumn, broadly consistent with the figures we are putting into public service cash limits. But as with this year, they will vary considerabl from industry to industry. They will therefore be of little help in influencing expectations, and I see no point in making them

public, any more than we did this year.

22. I do however think we should meet the nationalised industry chairmen in the near future to greatly stiffen their resolve and impress on them the need to take a tough line in pay negotiating. The nationalised industry settlements - particularly that of the miners whose next settlement is on 1 January - have an important effect in setting the climate of expectations early in the round.

Expectations

23. We must mount an intensive campaign to create an atmosphere in which pay bargaining will begin in the autumn at levels very substantially below the rates of the past year. In doing so, of course, we should avoid speaking in terms which get us hooked on to particular figures, norms or going rates. The essential message should be that the money supply has come under control and that inflation is bound to follow. Cost plus and comparability approaches to pay will achieve nothing other than lower activity and fewer jobs. We must use every available means and forum for doing this including securing the help of the CBI and making the most of NEDC.

Conclusion

24. The stretegy I propose is not going to be easy:

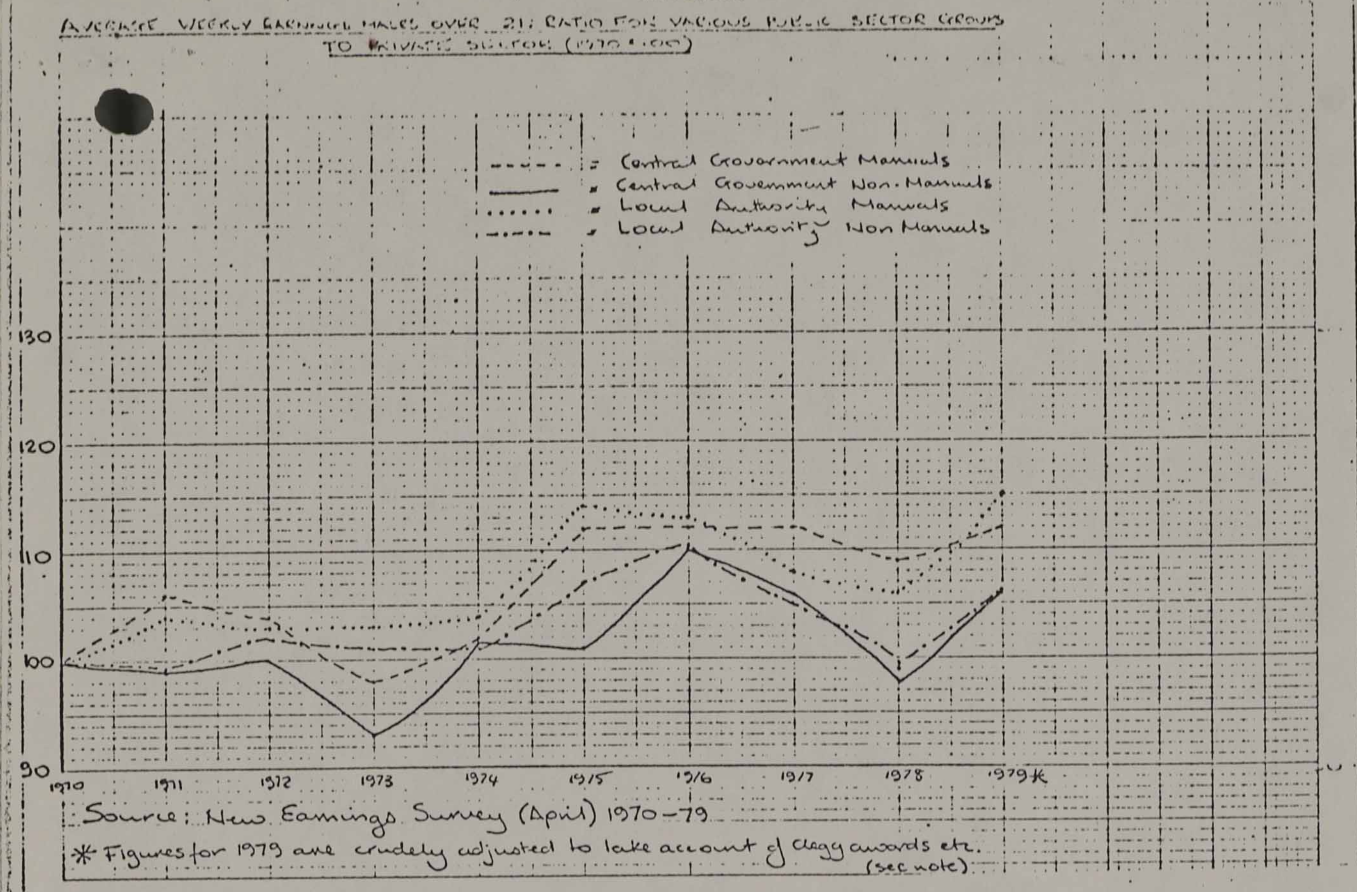
a. The private sector should respond to the monetary regime - although this is bound to be uneven.

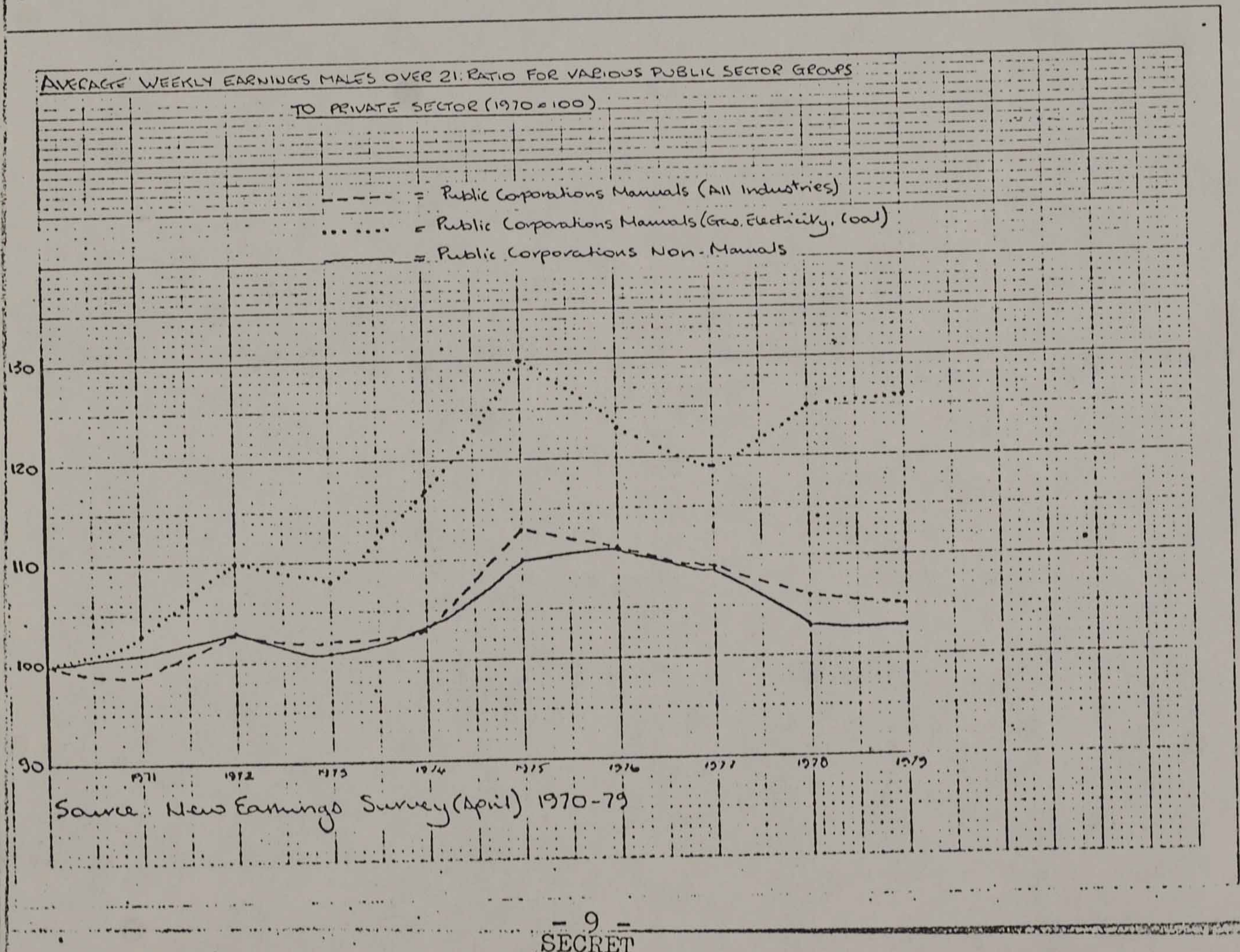
b. In the nationalised industries there will be differing settlements in part reflecting monopoly power, but influenced by the EFL's (which should be set in the autumn at the same time as the RSG), the attitude of the Chairmen, and the level of settlements in the private sector.

c. In the public services, the Government has to decide on its attitude to its own employees. The main weapon to get pay down must be the cash limits and the RSG. We cannot stick with comparability as the sole determinant of pay. The alternatives are to modify the present arrangements or abandon them. I prefer the former but can see the arguments for the latter.

25. It is wrong to hope for neat and tidy solutions: indeed I am suspicious of them. We are well aware of the problems of "solutions" such as formal pay policies. It will require determination and toughness to get as far as I suggest. But unless we gear expectations down, dethrone the RPI and the associated menace of cost plus pay increases and comparability, we shall find the credibility of our strategy is increasingly called into question.

15.5.80


AVERAGE WEEKLY EARNINGS MALES OVER 21: RATIO FOR VARIOUS PUBLIC SECTOR GROUPS TO PRIVATE SECTOR (1970 = 100)
- - - - = Central Government Manuals
——— = Central Government Non-Manuals
· · · · = Local Authority Manuals
-·-·- = Local Authority Non Manuals
130
120
110
100
90
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979*
Source: New Earnings Survey (April) 1970-79
* Figures for 1979 are crudely adjusted to take account of Clegg awards etc. (see note)


AVERAGE WEEKLY EARNINGS MALES OVER 21: RATIO FOR VARIOUS PUBLIC SECTOR GROUPS TO PRIVATE SECTOR (1970 = 100)
- - - - = Public Corporations Manuals (All Industries)
· · · · = Public Corporations Manuals (Gas, Electricity, Coal)
——— = Public Corporations Non-Manuals
130
120
110
100
90
1971
1972
1973
1974
1975
1976
1977
1978
1979
Source: New Earnings Survey (April) 1970-79

ANNEX B: Comparability in the Public Services

1. Comparability is not however applied in a uniform manner throughout the public service. It covers:

a. Pay research for the non-industrial civil service. The industrial civil service is not at present part of a formal comparability system, but outside comparisons conducted by the Pay Research Unit are used in determining the "key" basic rates of pay, on which the negotiations as a whole are based. It is nearly 25 years old and for the majority of that time it has worked smoothly.

b. The 3 Review Bodies - the Top Salaries Review Body (TSRB), Armed Forces Pay Review Body (AFPRB) and the Doctors' and Dentists' Review Body (DDRB), where broadly similar justification is made.

c. The Standing Commission on Pay Comparability (the Clegg Commission), which has so far conducted "one-off" exercises for a large number of groups, including local authority manuals, NHS ancilliaries, nurses and teachers.

d. The LACSAB "in-house" comparabilty study for the local authority administrative, professional, technical and clerical (APTC) group. There has not been the same long term tradition of systematic comparability for these groups.

e. Indexation - for police and firemen.

2. These cases cover a variety of methods of comparison, of greater or lesser accuracy, technical sophistication and desirability. They are:

a. job-for-job comparison - pay research, Clegg reports on LA manuals and NHS ancilliaries.

b. factorial comparison, where there are no direct equivalents elsewhere to the jobs which are the subject of comparison and where the jobs are dissected into the factors that compose them, and compared with similar facotrs in outside jobs - AFPRB, Clegg report on nurses (the Clegg Commission failed to produce sound factorial comparisons for teachers in the time available).

c. broad equivalence - TSRB, DDRB, LACSAB "in-house" study.

d. indexation, either to average earning generally (police) or to a particular point in the index (firemen).

e. comparison for a particular point on the earnings scale, with remaining rates set on the basis of internal relativities - Clegg on teachers.

In some cases the results of comparabiltiy are applied directly, in others they are a matter for subsequent negotiations. In the latter case, the negotiations are sometimes constrained by the comparability findings.

PAY SETTLEMENTS & NATIONALISED INDUSTRIES EFLs
1980/81

Industry	Pay Settlements Assumed in EFL	Pay Settlements Conceded	Excess	EFL
	%	%	£m	£m
British Airways	18½	13½	-	230
British Airports Authority	16	16	-	20
British Steel Corporation (1)	no assumption	(11+5=)16	132	450
British Railways Board (2)	14	20	58	750
National Freight Corporation	16	16-17	2	24
National Bus Company	14	18	15	85
British Gas Corporation (3)	17	18	-	- 400
Posts (4)	11	15	-	)
Telecommunications (5)	11	[15]	[60]	) - 280
British National Oil Corporation (6)	-	-	-	- 200
National Coal Board (7)	15	18	55-60	834
Electricity Boards (8)	12*	19ø	80	(187 (59 (73
British Shipbuilders	self-financing	11½	5-10	120
TOTAL:			c. 407-417	

*plus 6% expected carry over from previous year

ø plus 8% actual carry over from previous year (2% in respect of arbitration award)

Productivity in the public sector.

C

12

SECRET

Ref. A02183

PRIME MINISTER

Industrial Disputes in 1980-81

You asked me to arrange for a report to be prepared on the possibility of industrial trouble in the next pay round, on the lines of that produced last year, in time for consideration at the meeting of the small group of Ministers under your chairmanship scheduled for 19th May.

2. I now attach a copy of the report, which I am also sending to the Home Secretary, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Employment, the Environment, Industry and Social Services, the Chief Secretary, Treasury, and Mr. Ibbs.

RTA

(Robert Armstrong)

15th May, 1980

THE 1980/81 PAY ROUND

Last summer officials prepared a report on the prospects for industrial trouble in the 1979/80 pay round and the scope for Government action in dealing with strikes which threatened severe damage to the economy. That report was circulated to the Economic Strategy Committee under cover of a Memorandum from the Home Secretary (E(79) 27). The present report looks ahead, in the same way, to the prospects for the pay round beginning in August 1980.

2. As last time we attach, as basic information, a timetable of wage negotiations in 1980/81 (Annex A) and notes on individual industries or services where disruption could be particularly damaging (Annex B). Again, as last time, we have interpreted 'particularly damaging' as 'threatening essential supplies and services to the community' rather than in terms of financial cost to the Exchequer or the potential impact on inflation. We recognise that this distinction can appear somewhat artificial in particular cases - the spectrum of potential damage is a continuous one with no marked dividing lines - and have therefore, where it seemed appropriate, referred to the wider implications of particular negotiations. In preparing the notes at Annex B we have, as before, kept our enquiries of Departments to the minimum necessary for our purposes but they nevertheless reflect Departmental views and information. In the paragraphs which follow we have sought to draw general conclusions.

The Experience of 1979/80

3. The main burden of the report we prepared last year was that:-

(a) Relatively few private sector pay negotiations carry the risk of direct disruption to the economy. The most notable exceptions were: "Hire and reward" lorry drivers, oil tanker drivers, refinery workmen, seamen, dockers and the employees of the British Oxygen Company (BOC). We, and the Departments concerned, judged that damaging strikes were unlikely in any of these groups in the 1979/80 pay round. We noted however that a strike in the BOC could, almost alone among private firms, pose a really major threat to the economy as a whole. We also noted the importance, as a pace-setter for the private sector, of the wage negotiations of the Ford Motor Company which came early in the pay round.

(b) We judged damaging strikes in the public services to be unlikely. The most important reason for this was that the progressive implementation of comparability awards through 1979/80 and the studies of the Standing Commission on Comparability, would remove the deep-seated sense of grievance which many public service employees brought to their wage negotiations in 1978/79. We noted however that public service pay negotiations in 1979/80 would contain a new element - the threat of job loss and redundancy - whose impact on the mood of the employees concerned was unpredictable. Nevertheless we judged that strikes with this motivation by public staffs "might well be difficult to pursue successfully."

(c) The majority of points in the economy where strikes can be very damaging lie in the public trading sector. We thought that the coal industry and British Rail could be the main potential trouble spots. The other "vital" nationalised industries - gas, electricity, telecommunications and water - would we thought be able and willing to buy off trouble, if necessary at the expense of higher prices. And strikes in the "non-essential" public trading sector - in steel, shipbuilding and so on - like those in the bulk of the private sector, could be faced by the community with tolerable equanimity.

(d) We also drew attention to the severe practical limits on the ability of Government to soften the damaging effects on the community of strikes in essential industries or services. In almost all cases the best the 'civil emergencies' arrangements can do is preserve a minimum level of supplies and buy time for solutions to be found by other means.

(e) Finally we concluded that while a widespread repetition of the damaging strikes of recent years was unlikely, there was a high risk that the price of industrial peace would be a relatively high rate of wage, and consequently price, inflation in the short run.

4. In the event matters have turned out much as we foresaw. There have been strikes - though fewer than in 1978/79 - but none which have posed a real threat to the life of the nation. The prospect of widespread redundancies has caused much talk but little action. There have been heartening signs that the concept of the "going rate" has been somewhat eroded - with a wider range of settlements than in recent years - and unions have shown in some instances a greater willingness than before to recognise the importance of their employers' "ability to pay" - especially in the private sector. In some cases, too, union members have appeared less ready than in the past to follow automatically the advice of union leaders calling for industrial action (BL is an obvious example). Changes in the law governing industrial relations have not been enacted in time to affect this year's experience.

5. The present pay round is not yet over but the major trends have been set. The latest weighted average level of current pay settlements for major groups monitored by the Department of Employment is about 17 per cent. (The increase in average <u>earnings</u> will of course be higher than this.) Within the total the level of current pay settlements in the public services so far averages about 14½ per cent, in the public trading sector about 18 per cent and in the private sector about 18½ per cent. Within the latter figure settlements in the manufacturing sector average around 17 per cent and in the service sector 19/20 per cent. The index of average <u>earnings</u> at the end of this pay round is likely to show an underlying increase of about 22/24 per cent.

<u>Prospects for the Next Pay Round</u>

6. <u>The private sector</u>: In general we do not expect strikes to occur in the private sector which would inflict vital damage, although the seamen's negotiations could prove difficult and strikes could occur at particular ports on dockers' pay and possibly other issues. But most private employers can be expected to buy peace when they can and the unions to bargain with realism. Ford's will again be pace-setters and are likely to be ready and able to settle at quite high figures. The massive profits earned by the banks and the oil companies will also contribute to an inflationary climate of expectations. The banks are likely, as this year, to settle at high levels with their staffs, and this will impact on service and commercial

settlements generally. And the oil companies are likely to pay up rather than fight the claims of eg tanker drivers. This in turn will increase pressures on the road haulage industry where firms are already feeling the pinch, and where, unlike this year, the employers appear determined to fight against excessive wage demands. But, even so, widespread and prolonged strike action (and road haulage disputes need to be both to cause serious trouble) seems unlikely. In general in the private sector the annual rate of increase in RPI (expected to be about 18/20 per cent at the beginning of the round) seems likely to be taken by the unions as the target level of settlements, with possibly higher targets where the employer can pay and a lower settlement where they demonstrably cannot do so.

7. The public services: By the beginning of the round most of the "catching up" payments needed to correct the relative decline in pay perceived by employees to have arisen from earlier pay policies will have been made. For the first time in several years, public service staffs in general will feel that their pay equates roughly with the "rate for the job"; and they will know from the experience of the past 12 months that the main burden of staff reductions is likely to fall on potential new entrants (to whom no union feels a sense of obligation) and on lost promotion opportunities (which are a minority interest). But this does not mean that there could not be localised trouble over staff cuts - particularly perhaps among Local Authority employees where staff economies have not yet really begun. There is by common consent further to go in staff savings here than in the Civil Service, and consequently significant redundancies may be needed in addition to a slowing down of recruitment. Strikes by particular groups of Local Authority employees can cause serious public irritation but rarely affect the essential life of the community (the water industry in Scotland with its special links to Local Authority pay scales may be an exception). The teaching profession may feel particularly vulnerable but has little industrial muscle and is likely to seek refuge in its statutory right to, virtually binding, arbitration. The NHS poses a separate problem because of its almost total reliance on Government money to pay its bills. The decision to be taken later in the year on the cash limits to be applied to the NHS in 1981/82 will be of critical importance here.

8. Within this generally quiescent framework, however, there are two potential points of difficulty which have to be borne in mind. These are:-

(a) Unions in the Local Authority and NHS areas have this year accepted pay settlements which are turning out to be well below both the going rate of inflation and the general level of settlements. (The Local Authority and NHS manuals both accepted 13 per cent in January.) If the rate of inflation does not begin to fall significantly by the time wage bargaining for these groups begins again at the end of the year, a disruptive sense of grievance could re-emerge. This may not prove strong enough to provoke damaging action in 1980/81 but could increase pressure for industrial action in 1981/82. The nurses, too, are likely to be particularly anxious to defend the recent restoration of their pay to what they regard as 'fair' levels by the Clegg Commission. This will affect both their current negotiations and their future attitude.

(b) There will be unease about the Government's intentions on the method of determining public service pay. A decision to abolish the Clegg Commission would not, we think, cause trouble because the groups who have made use of its services have a tradition of direct bargaining and do not always welcome the intrusion of fact into the comparison process which lies behind most wage negotiations. Nevertheless abolition could in time lead to greater pressure for 'ad hoc' inquiries of the Halsbury or Houghton types. The role of the PRU and the Review Bodies in determining the pay of the central Civil Service, the Armed Forces and the Doctors and Dentists, is much more sensitive. The groups concerned have become accustomed to these mechanisms over many years and see them as a safeguard against arbitrary action by Government. Whether the operation of these bodies was to be artifically restricted, or whether they were to be abolished and reliance henceforward placed on direct bargaining (not of course possible for the Armed Forces) the risk of disruptive strikes would be much enhanced. Ministers are considering these matters separately and it is not for us to draw conclusions. It is, however, a matter of fact that, whatever their other defects, the present arrangements have played a major role in keeping particularly critical areas of the public services free both from strikes and from unjustifiably high settlements. Even during the period when the operation of these mechanisms was effectively suspended by the last Government the attention of staff was primarily directed to securing an early return to what they regarded as a "fair" system. A decision to rely henceforward on direct bargaining would create a new situation which could open up the prospect of damaging industrial action in parts of the central Government machine and, in the Review Body areas, with the Doctors and Dentists.

9. The public trading sector: The industries in the public trading sector can be divided into four groups. The first comprises those industries - steel, shipbuilding, aerospace, British Leyland, Rolls Royce etc - where strikes would not directly threaten the life of the nation. We do not consider them further, therefore, while recognising that the financial effects on Government of strikes in some of them could be severe.

10. Secondly, there are the major public utilities - gas, electricity and water - which, while vital, have the ability to buy their way out of trouble by passing the costs of any settlement on to their customers. This situation creates its own problems but, provided the Government does not set too tight financial constraints on them, there is no reason to expect serious trouble in any of these industries. The difficult questionsof nationalised industry finance involved are under separate consideration by Ministers.

11. The third group comprises the Post Office in its new guise with posts divorced from telecommunications. There is clearly much over-manning in the postal services and with a new management seeking to win itsspurs, and the loss of the possibility of cross-subsidisation from telecommunications, there could be problems. But experience in 1971 showed that an extended postal strike can be defeated. On the telecommunications side the 1980 settlements have still to be reached. The Post Office is under pressure on its EFLs, management will be fighting hard for a reasonable settlement, and there appears to be little scope for genuine productivity improvements. If trouble does arise from this cause it could well happen in the next month or two.

12. The Post Office apart, the most potentially risky industries in the public sector are coal and rail because trouble in either can threaten electricity supplies. The circumstances of the two industries differ and they are treated separately below.

13. Coal: The mineworkers are now reaping the fruits of the productivity deals negotiated in the past two years, with high and rising wages. And

there are signs that the productivity deals are paying off for management in higher productivity. These factors work for peace. On the other hand the headroom available for increasing the price of coal is limited by the NCB's understanding with the CEGB which allows for guaranteed sales provided prices do not rise faster than general inflation. There is still some margin compared with the price of oil. Although the coal industry is doing quite well, it has still has a tail of unproductive and loss-making pits, the closure of which would materially improve the NCB's finances. The main risk of industrial trouble probably lies with the scale of imports (with BSC under a new Chairman), and the pace of closures, which could stir up militancy among the miners.

14. Rail: The main railway pay settlement date is in April. Disruption of the railways, resulting from a failure to agree on pay, would therefore come when the impact on electricity supply of a failure to move coal to power stations would be falling. The BR management may be forced to adopt a tougher line before the winter if productivity improvements paid for in this year's settlement fail to be delivered. However we do not believe the rail unions to be of a mind, or to have the resources, to engage in a full-scale strike next year. Interruption of services on a regular one-day-a-week basis are a more likely tactic. This would not be economically damaging though it could cause considerable aggravation, particularly among commuters.

Conclusions

15. In the past year the policies of the Government - essentially of leaving the private sector to find its own salvation within the framework of the Government's general economic policies, of allowing the public services to catch up on the differential loss of pay they suffered under the previous Government, and of allowing nationalised industries, where they could, to finance pay settlements through increased prices - have avoided strikes which directly threatened the life of the nation. But there has been an uncomfortably high rate of pay increases and a stimulus to inflation. In the coming year the prospects of avoiding damaging industrial disruption are less certain. In 1979/80 the only real threat lay in the possibility of a miners' strike. In 1980/81 the possibility of disruption in the mines remains (though centred on imports and closures rather than pay) but the list of potential dangerous trouble spots must be extended to include, however tentatively, the Civil Service, the telecommunication side of the Post Office and the NHS. The common thread in these groups is that in each

case it is prior decisions by Government, whether on pay bargaining machinery or EFLs, or cash limits, which will determine the climate in which decisions on industrial action will be taken. The same considerations hold good also for the monopoly public utilities - gas, electricity and water - except that in their case (as indeed in telecommunications) the limiting effects of EFLs can be offset, subject to timing constraints, by price increases.

Cabinet Office
15 May 1980

CONFIDENTIAL

ANNEX A

MAJOR PAY SETTLEMENTS: ANNUAL SETTLEMENT DATES

		Number of Employees	Unions involved
SEPTEMBER			
20	Vauxhall Motors Co Ltd	24,127	AUEW, EETPU, TGWU
26	British Oxygen Co - Gases Division - manuals	3,300	TGWU, GMWU
NOVEMBER			
	BL Cars - manuals	111,000	AUEW, TGWU GMWU
4	Local Authority - manuals	1,000,000	GMWU, NUPE, TGWU
24	Oil Tanker Drivers - Shell, BP, Esso	7,800	TGWU
	National Engineering Agreement	2,000,000	CSEU
	Merchant Navy Officers	41,000	
	Ford Motor Co Ltd - manuals	57,834	ASB, AUEW, APAC, EETPU, FTAT, GMWU
DECEMBER			
7	Water supply - manuals	33,069	NUPE, GMWU, TGWU, NUAAW
7	Scottish Water Service manuals	2,000	GMWU, TGWU, NUPE
13	NHS - ancillaries	212,750	NUPE, GMWU, TGWU, COHSE
JANUARY 1981			
	Road Haulage drivers - negotiations are fragmented, beginning in September and extending to February. The majority have a settlement date of 1 January.	100,000	TGWU, URTU
1	Newspaper Publishers Association - National newspapers	33,000	SLADE, NGA, SOGAT, NATSOPA, AUEW, EETPU
2	Merchant Navy - seamen	45,000	NUS
1	British Airways - all except pilots and flight engineers	50,000	TGWU, AUEW, EETPU, NUSMW, GMWU, UCATT, ACTSS, APEX, ASTMS

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1	Coalmining - manuals	230,900	NUM
	- clericals	14,000	NUM, APEX
	- deputies	18,500	NACODS
	- managerial grades	15,800	BACM
1	BSC - process workers	59,000	ISTC
1	- craftsmen	30,000	NCCC
1	- blastfurnacemen	10,000	NUB
1	- clerical, supervisory and technical grades	40,000	ACAS, ASTMS, APEX, ISTC, NCCC, NUB, MATSA,
1	NHS - maintenance workers, electricians, engineering craftsmen and plumbers	13,000	TGWU, GMWU, EETPU, CSEU
1	- ambulancemen	16,600	NUPE, TGWU, GMWU, COHSE
1	Hull, London and Southampton Docks	10,000	TGWU, NASD
1	National Freight Corporation BRS - operating grades	12,500	TGWU, URTU
20	Agriculture (E & W)	256,000	WAGES BOARD
20	Gas supply - manuals	39,200	GMWU, TGWU
	Electrical Contracting Industry	45,000	EETPU

FEBRUARY

1	Electricity supply - Engineers	29,000	EPEA
1	NHS Ambulance Officers	3,300	
3	Plumbing, Heating & Mechanical Services Contracting Ind (E & W)	30,000	EETPU

9	Heating and Ventilating and Domestic Engineers	45,000	NUSMW
MARCH			
17	Electricity supply - manuals	96,000	EETPU, GMWU, TGWU, AUEW
APRIL			
1	Civil Service Non industrials	494,500	FDA, SCPS, IRSF, CPSA, IPCS, CSU
1	NHS - Administrative and Clerical	117,000	NALGO, NUPE, COHSE, TGWU, MATSA
1	NHS Nurses and Midwives	494,000	NALGO, NUPE, RCN, RCM, COHSE
1	Teachers - Primary and Secondary (E & W) and Scottish and FE Teachers	600,000	NUT, AMA, NAHT, AAM
1	British Airways - Engineering Officers/ Pilots	4,000	MNAOA, BALPA
1	BBC manuals and non-manuals	28,000	ABS, NUJ, EETPU, NATTKE, SOGAT
1	Post Office - UPW Postal Grades	153,000	UPW
24	British Printng Industries Federation	120,000	NGA, SOGAT, NATSOPA
24	Newspaper Society - Provincial Newspapers	26,000	NATSOPA, NGA, SLADE, AUEW, EETPU
21	British Rail - Clerical and Conciliation Grades	150,000	TSSA, ASLEF, NUR
	- Workshop Grades	50,500	NUR, CSEU
1	English Clearing Banks	154,000	BIFU

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1	Shipbuilders - Swan Hunter, Sunderland Govan, Yarrow, Vickers	25,300	CSEU
21	LTE Rail Operating grades	15,000	NUR, TSSA, ASLEF
25	British Transport Docks - manuals	3,162	EETPU, NUR, CSEU, UCATT, TGWU
26	British Sugar Corporation	6,883	TGWU, GMWU, EETPU, NUAAW

MAY

1	Port of Liverpool	5,500	TGWU
1	Electricity Supply - Clericals	50,000	NALGO
8	Heavy Chemicals	61,000	TGWU, GMWU, USDAW, CMU

JUNE

25	Construction and Civil Engineering Industries (BATSIC and NJCBI)	750,000	UCATT, TGWU, FTAT, GMWU
6	Imperial Chemicals Ltd - manuals	65,000	ASTMS, GMWU, TGWU, NUSMW

JULY

1	British Nuclear Fuels Ltd	7,100	GMWU
1	Industrial Civil Service	165,800	EETPU, ASBSBSW, AUEW, UCATT, TGWU, APAC, FTATU, NUSMWC, GMWU
1	Post Office Clerical and Executive	44,800	CPSA, SCPS
1	Post Office (Telephones, telegraphs telecoms) UPW Grades	35,000	UPW
1	Post Office Engineering Grades	126,000	POEU
1	Gas Supply Staff	55,700	NALGO
	Local Authority non-manuals (E & W)	569,000	NALGO, COHSE, NUPE, GMWU, TGWU
	(Scotland)	63,500	
1	Water service non-manuals	32,400	NALGO, GMWU, NUPE
1	Probation and aftercare services	5,161	NAPO
1	Post Office (postal) supervising and management grades	13,900	POMSA
1	Post Office (telecoms) " " management grades	6,100	POMSA

CONFIDENTIAL

ANNEX B

1. Coal
2. Gas
3. Electricity
4. Water
5. Oil tanker drivers
6. Oil refineries
7. Road Haulage
8. Railways and London Underground
9. British Nuclear Fuels Ltd
10. Civil Aviation
11. N.H.S.
12. Local Authorities
13. Civil Service
14. Post Office
15. British Oxygen Company
16. Ports
17. Seamen.

INDUSTRY/SERVICE: COAL

UNIONS: NUM, NACODS, BACM

SETTLEMENT DATE

1 January 1981
(& 1 November 1981)

NUMBER OF WORKERS

290,000

1. EFFECTS OF A STOPPAGE

40% of energy requirements are met by coal, including two-thirds of electricity production. Survival period depends on extent of picketing outside the industry itself and, if there is secondary picketing, the extent of stockholdings that are not vulnerable to picketing. The relevant provision of the Employment Bill is of course intended to limit the likelihood of secondary picketing.

2. EXPECTED CLIMATE

The introduction in 1977/78 of the productivity scheme put the miners comfortably back on top of the earnings league and they are determined to stay there. However, improved production and productivity in recent months have produced very high earnings and there is no present sense of militancy (eg. the vote by Welsh miners in February against industrial action). Likely attitude in the coming winter hard to gauge. Annual Conference wages resolution in July will provide some indication of the mood, but has by no means been followed in detail in the past. NCB have a very severe financial target which requires a tougher approach to pit closures. Related improvements in redundancy pay and transfer allowances may cushion this. Higher coal imports productivity by the BSC, could also be an emotive issue. Overall effect on morale difficult to judge.

3. RELATED PROBLEMS

Coal burn in power stations likely to remain at high level. Coal stocks position at present reasonable and on current assumptions about burn and deliveries is likely to be sufficient to meet at least 5-6 weeks requirements around the turn of the year.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Main influence through control of deficit and investment finance to NCB, both covered by the EFL. NCB can raise prices, but constrained by need to remain competitive with oil prices (and imported coal). Prices have risen 20% already this year. There is still headroom below oil prices; but the

(see over)

NCB's 5-year understanding with the CEGB limits the scope for raising prices above general inflation without losing sales. The NUM are aware of this position, and of the severe financial target for the industry.

5. CONTINGENCY ARRANGEMENTS

a. Services Contingency Plans

No plans involving servicemen now considered practicable. NCB policy to distribute as much coal as possible to consumers. In the event of a strike, NCB, with the co-operation of the NUM, to operate a system of priorities for supplies to essential users (hospitals, food industry etc.) Coal merchants to establish a priority system for aged, infirm and sick.

b. Stockpiles

For power stations already largely determined by available transport capacity during the summer.

c. Alternative Resources

Almost no scope. Higher imports could not significantly offset the loss of home supplies.

d. Statutory Controls

Regulations to control supply and use of coal and electricity under Energy Act 1976.

INDUSTRY/SERVICE: GAS SUPPLY		SETTLEMENT DATE	NUMBER OF WORKERS
	Manuals	20 January	43,000
	Staff	1 July	63,000

UNIONS: GMWU, TGWU (manuals), NALGO (staff).

1. EFFECTS OF A STOPPAGE AND TIMINGS

Gas accounts for nearly a quarter of all industrial energy used; over half domestic cooking and heating; and heating in many schools and hospitals. The problem is maintaining pressure in the mains: if air enters explosions can result. Action by staff manning distribution terminals would have immediate impact on supplies. A strike by manuals would mean leaks going unrepaired and parts of the system progressively having to be shut off. Industry would suffer first because easier and safer to cut off. A major effect on the economy would take time to develop, but severe local effects could occur very quickly.

2. EXPECTED CLIMATE

No tradition of militancy. Staff have not yet settled in this pay round, but BGC do not anticipate strike action.

3. RELATED PROBLEMS

Action could be compounded by trouble in other energy industries.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

As for any statutory corporation. EFL (for amount repaid to Exchequer) is only a weak control. High profits. The weather can have more effect on out-turn than a few percent on wage bill. Domestic gas prices already lower than competitive fuels.

5. CONTINGENCY ARRANGEMENTS

a. Service Contingency Plans

Plan VIBRATE (some 5,400 servicemen) to help maintain gas supply safety, by warnings to consumers, temporary repairs, monitoring gas pressure conditions. Not to assist in gas supply. Plan being modified to take account of different numbers of servicemen available, and possibility that staff and manual workers might support each other.

b. Stockpile Policy

Storage capacity needed to meet peak winter demand for natural gas.

c. Alternative Resources

Firms on "interruptible contracts" (some 20% of total demand) have standby arrangements to use alternative fuels. Hospitals with gas fired boilers generally have oil fired standby equipment.

d. Statutory Controls

Powers for allocation/reduction of supplies -

(i) general powers of direction under Gas Act 1972

(ii) emergency powers under Energy Act 1976.

INDUSTRY/SERVICE:	ELECTRICITY SUPPLY	SETTLEMENT DATE	NUMBER OF WORKERS
	a. Engineers	1 February	28,000
	b. Manuals	17 March	92,000

UNIONS: EMA (Engineers)
EEPTU, AUEW(E), GMWU, TGWU (Manuals)

1. EFFECTS OF A STOPPAGE AND TIMINGS

Withdrawal of manual labour, even assuming full co-operation from the engineering staff, could cause an immediate loss of supplies, perhaps by as much as 70%. A combined stoppage by both manuals and engineering staff would bring the industry to a halt. Limited industrial action by manual staff could have the effect of reducing supplies by 10-30%, depending on how it was applied. Providing the co-operation of the engineers was obtained, it would be possible to operate a system of rota cuts offering protection to essential services and users. In the absence of such co-operation, a cruder system of rota cuts would have to be introduced which could not protect essential services to the same extent, although every attempt would be made to maintain supplies for coal mines, major airports, railways, very large continuous processes and major gas pumping stations. Action by engineers alone would produce extreme difficulties and only very crude switching would be possible. Limited action by them would result in loss of supply of the order 10-30%. The cruder form of rota cuts would probably be applied right away. Serious interruptions in mains supply could have rapid effects on food production and supply as well as on hospitals.

2. LIKELY MILITANCE

None - the engineers and manuals have both settled in the 1979/80 pay round, and there are no indications at present of special problems to cause militancy in the next pay round. Workers in the industry have not been militant by tradition.

3. RELATED PROBLEMS

Fuel supplies to not appear to present difficulties. Interruption to coal or oil supplies through industrial action in those industries later this year could affect electricity supply; the industry aims for fuel stocks at a level to sustain endurance for some weeks at the peak winter consumption period.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Recent pay settlements have been broadly in line with the rate of inflation.

(see over)

The Government are putting pressure on the industry through the EFL and a reference to the Monopolies and Mergers Commission to contain its costs, including labour costs.

5. CONTINGENCY ARRANGEMENTS

a. Services Contingency Plans

None - tasks too technical.

b. Stockpiling Policy

CEGB policy has been to hold fossil fuel stocks of 50 average winter days consumption in the peak January/February period; ancillary materials are held at corresponding levels. Current forecasts of demand and fuel supply indicate that winter fuel stocks should be adequate to meet this level of endurance; and Ministers will be reiterating the importance they attach to this.

c. Alternative Resources

Major NHS hospitals have standby generators and PSA have a few to help meet essential needs (eg water or sewerage pumping). Some industrial firms have their own generators for regular use (4500 MW) or standby. Essential Government tele-communications and accommodation services for emergency staffs on Government business are also provided for.

d. Statutory Controls

Emergency regulations to control supply and consumption of electricity (Energy Act (1976) or Emergency Powers Act (1920) as necessary).

INDUSTRY/SERVICE: WATER (ENGLAND AND WALES) SETTLEMENT DATE NUMBER INVOLVED

1. Manuals	7 December	33,000
2. Craftsmen		5,000
3. Supervisors		34,500

UNIONS: GMWU, TGWU, NUAAW (manuals)
CSEU (craftsmen)
NALGO (supervisors)

1. EFFECTS OF STOPPAGE

The consequences would depend crucially on whether the supervisors, i.e. foremen, professional and managerial staff, continue to work or not; they would also be very different in different areas. Without supervisors neither water supply nor sewerage systems could curvive more than a few days. Troops or contractors could not help without supervisors to tell them what to do. If craftsmen and manuals stop work, but supervisors try to keep the system going, we could probably manage, with some local difficulties, for say 2 weeks before putting in troops to assist. Thereafter the system could keep going for about a further 4 weeks - though on an emergency basis (troops would provide 9000 men against a normal workforce of 33,000, manuals + 5,000 craftsmen). Maintenance work in the industry is normally done on a breakdown basis and so cannot readily be deferred. Selective action, short of all-out strike could also be troublesome because of fine tuning of distribution systems. Illegal acts - but very difficult to prevent - could isolate particular industries from supplies by altering remote valves. If labour were withdrawn water quality at the tap would deteriorate, river pollution would increase, flooding could occur at key sewage pumping stations and sewer blockage or collapse could cause flooding or health risk.

2. EXPECTED CLIMATE

Depends very much on general industrial relations mood. Water workers could press for updating of last year's comparability award as well as increase for inflation. Official or non-official action cannot be ruled out if, as might well happen, employers take harder line this time and also seek manpower reductions. But reduction in working week due in December 1980 and benefits of two successive annual pay settlements may dampen enthusiasm for militant action at grass roots. The supervisors can no longer be relied on to support employers but much will depend on the outcome of their own settlement due in July 1980.

3. RELATED PROBLEMS

Interaction with NHS and Local Authority. Same unions. Local authorities maintain sewerage system as agents of water authorities.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Negotiations carried out centrally by National Water Council. But financial pressure on industry tends to be weak because wages are a relatively small part of costs. However water charges, which have been rising annually broadly in line with movement of the RPI, are now a matter of public concern.

5. CONTINGENCY ARRANGMENTS

a) Services Contingency Plans (under review)
Plan NIMROD (9000 servicemen + command and control) for water and sewerage in GB. Depends on availability of supervisors. Would take 2 weeks to activate from scratch since specific trades are required.

(see over)...

b) Statutory Controls

Emergency Regulations to limit uses of water, and relieve Water Authorities of certain obligations.

INDUSTRY/SERVICE:	SETTLEMENT DATE	NUMBER OF WORKERS
OIL TANKER DRIVERS	24 November	7800

UNION: TGWU

1. EFFECTS OF STOPPAGE (Without Military Aid to Civil Ministries)

Would quickly bring road traffic to a halt. After 2 weeks little non-essential movement. Industry at large would be out of fuel. Oil for heating would have run out at some schools, offices and factories within 2 days. Stoppages in even one company can have serious effects in certain areas.

2. EXPECTED CLIMATE

Aware of their industrial muscle drivers may well push TGWU negotiators to once more demand high settlements. If these are not conceded, threats of industrial action are likely. The success of the road haulage dispute in 1979 will be remembered.

3. RELATED PROBLEMS

Tanker drivers are often looked to as the pace-setters in the haulage industry in general. While the oil companies may have the ability to meet high demands the Road Haulage Employers are likely to be less well placed in the 80/81 round.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

The oil companies coordinate their stance, although smaller companies can break ranks. They will want to decide their own response but will keep Government closely informed.

5. CONTINGENCY ARRANGEMENTS

a) Services Contingency Plans

Plan LEADBURN (9600 servicemen) would provide a lift of about 20% of normal oil movements. But deliveries would be to "essential users" only and much of industry would be starved of fuel. It requires emergency powers to requisition oil tanker vehicles and assumes some operatives and staff are available at terminals.

b) Stockpile Policy

Average oil stock levels are likely to be 7-21 days of fuel oil by industrial consumers; 6-7 weeks of fuel oil by power stations;

substantially larger stocks of heating oil on average by domestic consumers, small industrial and commercial consumers. (But if no new supplies are delivered at least 10% would be without oil within a week); 7-14 days of motor fuels by industrial and commercial consumers, eg bus companies, but 25 per cent would be out of fuel in the first week; 2-3 days of petrol/diesel at filling stations. (These figures to be checked by Dept of Energy).

c) Statutory Controls

Emergency Regulations and Energy Act 1976.

INDUSTRY/SERVICE: OIL REFINING SETTLEMENT DATE NUMBER OF WORKERS

Manuals Staff	different dates from September onwards for different companies	18,000

UNIONS: TGWU, ASTMS, Craft Unions (EEPTU etc.) There is a broad spread of union membership; some refineries are not unionised.

1. EFFECTS OF A STOPPAGE AND TIMING

National refinery stoppage unlikely because different companies conduct individual wage bargaining, at plant level. In the event of manuals' strike, white collar workers might carry out necessary jobs but this would depend on local inter-union relations. Lack of maintenance would lead to gradual shut-down.

2. EXPECTED CLIMATE

No history of militancy. Has been some unofficial trouble at individual refineries.

3. RELATED PROBLEMS

Refinery shutdown (by any of the major companies) could result in shortage of supplies for C.E.G.B. Thanks to a fairly mild winter the current stocks of product are satisfactory and the oil market shows a modest surplus over demand. It should, therefore, be possible for CEGB to obtain supplies from an alternative source.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

No direct influence. Government generally has good relations with industry.

5. CONTINGENCY ARRANGEMENTS

a. Service Contingency Plans

None. Tasks too technical.

b. Stockpile Policy

Industry normally holds 1 - 2 months' stocks,

c. Alternative Resources

Major consumers (e.g. CEGB) should be able to obtain supplies from other companies or import direct from the international market. It is just possible that supplies of oil thus obtained could be blacked by the CEGB workers.

d. Statutory Controls

Energy Act 1976: powers to direct companies on supplies.

INDUSTRY/SERVICE: ROAD HAULAGE

SETTLEMENT DATE	NUMBER OF WORKERS
Most regions & NFC 1 Jan	Private 250,000
Some in Nov/Dec.	NFC 24,000

UNIONS: TGWU, URTU
TSSA/BTOG for staff

1. EFFECTS OF STOPPAGE

Experience in January/February 1979 showed that, despite the diversification of road haulage capacity, militant strike action, associated picketing and threats of subsequent reprisals in the hire and reward sector can effectively halt most road movements and blockade ports, and other important sources of supplies. (A major problem concerned the importation of animal feedstuffs).

2. EXPECTED CLIMATE

Once more high wage claims can be expected, coupled with demands for a reduction in the working week and local payments for the use of the Tachograph. In a highly competitive industry the tendency has been for firms to settle rather than fight (some firms have yet to recover from the 1979 dispute). But the recent Steel Strike caused revenue losses in many areas and coupled with a general downturn in business may well bring about tougher negotiations in the next pay round. Area disputes probably more likely than another all out stoppage. Scotland, Hull and the West Midlands will be the critical areas to watch. NFC flotation may cause unrest in that Company.

3. RELATED PROBLEMS

The rail network cannot duplicate the haulage industry's role particularly in the area of local deliveries.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Largely private sector, little or no influence available over RHA. While in theory we could put NFC into front line - the unions would resist that ploy - and such a move resulting in a damaging strike could lower the value of NFC at the crucial time of share flotation. Unions seem to be setting their sights on regional/company negotiations in the next pay round.

5. CONTINGENCY ARRANGEMENTS

a) Service Contingency Plans

No real alternative possible for general freight movements in an all-out strike.

INDUSTRY/SERVICE: RAILWAYS (including London Underground)

SETTLEMENT DATE	NUMBER OF WORKERS
Rail April	220,000
Tube "	18,000

UNIONS: NUR, ASLEF, TSSA, CSEU.

1. EFFECTS OF STOPPAGE

BR: Main effect of national strike would be on economy via freight. But commuter services can be severely and annoyingly disrupted by work-to-rule or 1 day strikes at little cost to railwaymen.

Tube: A strike by very few signalmen could close Tube. Selective action could also be very troublesome. Concerted action between BR and Tube employees could effectively bring work in London to an immediate halt.

2. EXPECTED CLIMATE

After union talk of a "20% demand" plus "20% catching up" award, BR's 20% settlement this year is, in some senses, a good one - particularly in light of the unions new commitment to productivity. But the settlement involves a 'lead-in' payment and if the productivity does not materialise and BR management take tough unilateral action (c.f. British Leyland) then industrial unrest is likely. Another high wage demand followed by tough negotiations can be anticipated in the next round. Tubemen too are being pressed on productivity and are known to have been spoiling for a strike for over a year now (NB left wing infiltration of union branches). But on both networks limited disruption affecting London commuters more likely than all out stoppages

3. RELATED PROBLEMS

Coal supply to power stations is already critically dependent on rail transport next winter. Action by BR staff could therefore repercuss to power supplies.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

BR is grant-aided in respect of its Public Service obligations, and has in recent years had a constant real terms cash limit. LTE is grant-aided by GLC. Labour intensive industry. Unions have in the past challenged validity of a fixed financial discipline from Government. Productivity underlined by BRB and GLC/LTE but still union resistance at grass-roots level.

5. CONTINGENCY ARRANGEMENTS

a) <u>Services Contingency Plans</u>

System too complex for effective operational action. Emergency car parks in London parks via plan PUFFER (280 men).

b) <u>Stockpiles</u>

Only relevant for freighted items. Coal stocks are already determined for next winter. (Dept of Energy to check this point).

c) <u>Alternative Resources</u>

Cars, buses, and planes could cope with intercity travel. In London and conurbations congestion would cause disruption. Road freight could not adequately substitute for specialist rail freight - eg merry-go-round trains to power stations.

d) <u>Statutory Controls</u>

Emergency Regulations to relax certain restrictions. Requisition road vehicles.

INDUSTRY/SERVICE:	BRITISH NUCLEAR FUELS	SETTLEMENT DATE	NUMBER OF WORKERS
	Manuals	1 June	7,100) approx
	Non-industrials	1 April	4,800) approx

UNIONS: GMWU, AUEW, TGWU, EEPTU (industrials)
IPCS, CPSA, SCPS, AGSRO (non-industrials)

1. EFFECTS OF A STOPPAGE AND TIMING

Main consideration public safety. Plant would need to be shut down and made safe. No safety problems in short term, provided small number of people had access; or in longer term (some months), provided deliveries of essential supplies took place. Effect on electricity supply: most nuclear power stations would be able to last for no more than 4-6 months before storage ponds became full.

2. EXPECTED CLIMATE

No tradition of militancy (occasional unofficial action). No reason to suppose BNFL will not be able to reach agreement with employees.

3. RELATED PROBLEMS

-

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

No statutory powers: BNFL is Companies Act company.

5. CONTINGENCY ARRANGEMENTS

a. Service Contingency Plans

None: too technical.

b. Stockpile Policy

Not relevant - dangerous to store materials outside BNFL sites.

c. Alternative Resources

No realistic alternatives.

d. Statutory Controls

None relevant.

INDUSTRY/SERVICE: CIVIL AVIATION (PUBLIC SECTOR)

	SETTLEMENT DATE	NUMBER OF WORKERS
British Airports Authority	1 January	7,000
Civil Aviation Authority	1 April	7,600
British Airways (pilots)	1 April	4,000
British Airways (other)	1 January	50,000

UNIONS: TGWU, AUEW, EETPU, NUSMW, GMWU, UCATT, ACTSS, APEX, ASTMS, BALPA, IPCS, SCPS, CPSA.

1. EFFECTS OF STOPPAGE

Action by firemen alone could close BAA airports. Could probably manage without other groups. Air traffic controllers could close all airports. Loss of all civil aviation would be tolerable for a time - though costly. In fact limited action is much more likely.

2. EXPECTED CLIMATE

No obvious indicators. CAA usually follows civil service and may well largely continue despite legislation currently going through Parliament which will free it from Departmental control over salaries and staff numbers. Employers particularly BAA, CAA, are likely to adopt a tough stance. (BAA employees received a 15% pay increase in 1980, British Airways 17% but offset by productivity improvements). None of them have much scope for raising charges, and CAA is anxious to eliminate grant in aid.

3. RELATED PROBLEMS

A civil service dispute could affect power supplies for air traffic control.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Financial disciplines for profitable industry with little price flexibility.

5. CONTINGENCY ARRANGEMENTS

a) Services Contingency Plans
None.

b) Alternative Resources
In case of a BA strike other carriers could cope with the greater part of the load. In case of a BAA strike a small proportion of the traffic could still fly from municipal airports.

INDUSTRY/SERVICE: NHS	SETTLEMENT DATE	NUMBER OF WORKERS
Ancillaries	13 December	210,000
Craftsmen	1 January	14,000
Ambulancemen	1 February	17,000
Admin	1 April	120,000
Doctors, nurses	1 April	450,000

UNIONS: NUPE, GMWU, TGWU, COHSE, NALGO, ASTMS, BMA, BDA, RCN, RCM

1. Effect of stoppage

Reductions in hospital services.

2. Expected climate

Probably soured by disappointment of unions at Clegg awards in 1979/80 and failure of 14 per cent settlements to protect from inflation in 1980/81. (Possibility of disputes in current year from groups who have not yet settled or from claims to reopen 14 per cent settlements). Risk of official, national disputes if cash limits again require settlements significantly below RPI and overall movements in pay and if 'falling behind' remains an unsolved problem (nurses, professions supplementary to medicine (therapists etc)).

3. Related Problems

Claims from ancillaries and ambulancemen are linked to local authority staff; same unions involved. Picket lines may prevent fuel or supplies reaching hospital.

4. Government influence over employers

Through cash limits, which employers will respect.

5. Contingency arrangements

a. Contingency Plans including use of troups: Plans KINDLY II and BITTERN, Plan KINDLY I to replace hospital ancillary staff in mechanical, laundry, stoking, electrical, driving and general duties. All plans recently revised and NHS advised to undertake own local contingency planning. Plans capable of dealing with scale of industrial action experienced in early 1979, but in the unlikely event of an all-out strike of all NHS ancillaries and ambulancemen, it would be very difficult to maintain an adequate level of emergency services.

b. Stockpiles: Convenience foods and disposable linen in hospitals. Standby generators.

INDUSTRY/SERVICE	SETTLEMENT DATE	NUMBER OF WORKERS
Local authority (manuals)	4 November	1m

UNIONS

AUEW, NUPE, GMWU, TGWU, EETPU

1. EFFECTS OF STOPPAGE (Essential services only)
Rubbish collectors; school caretakers; gravediggers and agency sewerage work for water authorities; road gritting.

2. EXPECTED CLIMATE
In the light of subsequent settlements, last annual settlement will be regarded as low and unions will be looking for updating of Clegg settlement, increases in line with inflation and reduction in working week. Developments in union stance on public expenditure cuts and reactions to inroads on manning levels will influence attitudes. Expected that employers will take a tough line in face of increasing financial constraints and this seems bound to lead to pressures for official industrial action with strong possibility of, at least, selective unofficial action. However winter 1979 will not be easily forgotten and prospect of prolonged loss of earnings will be important factor influencing attitudes of rank and file in low paid groups. Possibility of more local settlements than usual in authorities opposed to government policies if there is industrial action.

3. RELATED PROBLEMS
Possible interaction with water or NHS dispute. Same unions involved.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS
Government influence via RSG settlement and cash limit only. This is first freely negotiated local government settlement in pay round which takes account of RSG/cash limit but is made before rates are fixed. NJC negotiated last year with cash limit constraint in mind but it was not overriding; attitude this year may depend upon political balance in employer side of NJC but implications of ignoring cash limits for

INDUSTRY/SERVICE:	CIVIL SERVICE	SETTLEMENT DATE	NUMBER OF WORKERS
	Non-industrial	1 April	548,000
	Industrial	1 July)	157,000
	Printing	19 June & 26 July)	

MAIN UNIONS: IPCS, CPSA, CSU SCPS, FDA, IRSF, EETPU, ABBSBSW (boiler workers and shipwrights), AUEW, GMWU, TGWU, NUSMWCHDE, (sheet metal workers and coppersmiths), NGA, NATSOPA, UCATT, SOGAT.

1. EFFECTS OF STOPPAGE

Action in civil service would almost certainly be selective, aimed at particular weak points, eg.

a) computers (this is a specially vulnerable area);
b) customs and immigration control;
c) air traffic;
d) payment to contractors and collection of revenue;
e) payments of benefits (exempted from action last time but would create quick effects - not all favourable to the union!);
f) defence service (industrials as well as non-industrials);
g) prisons;
h) parliamentary services eg. printing, heating, ventilation etc.;
i) courts service.

2. LIKELY MILITANCY

Administration Group, although generally satisfied with the recent PRU settlement, have expressed annoyance with Government interference in the agreed procedures and will seek an assurance of full implementation in the 1981 negotiations. Failing such an assurance industrial action is a real possibility. The 1980 central pay settlement for P & T grades has been imposed by administrative action. This will not improve relations with the IPCS, who are also strongly dissatisfied with the erosion of differentials for P & T grades who supervise industrials. Selective industrial action (mainly affecting Defence and PSA) is probable. The position is likely to be made worse when the Science Group pay negotiations get under way. In general any attempt by the Government to oppose next April something less than a "fair comparison" settlement would very likely provoke industrial action. Another likely basis of discontent among the Civil Service unions

(see over)

generally during 1980 is the whole area of manpower economies, and the proposals arising from the Rayner Report. Protests are likely. The introduction of new technology by administrative action, in default of agreement, may lead to calls for industrial action, but may not command widespread support. Similarly the changes in employment legislation and reductions in accommodation standards are unlikely to spark off much militancy.

3. RELATED PROBLEMS

Contingency plans involving use of other organisations (eg. Post Office, banks) dependent for success on willingness of unions involved not to take sympathetic action. Picketing also interrupts deliveries of supplies, including mail and heating fuel for offices.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Direct.

5. CONTINGENCY ARRANGEMENTS

a) Services Contingency Plans

Use of Services probably related only to MOD contingency plans (ie. to replace industrials).

b) Stockpiles and Alternative Resources

Use post offices for payment of benefits; banks for financial transactions. Very difficult to plan generally since the action will be aimed at the current points of weakness. Union knowledge of these likely to be up-to-date. Departments generally have made contingency plans related to the targets listed at 1. Effectiveness of plans heavily dependent on i)
willingness of staff to undertake other than normal duties ii)
willingness of management to use available sanctions (eg. to increase significantly the numbers of strikers the unions have to finance.) iii)
availability of effective sanctions under present employment protection legislation.

c) Statutory controls

None.

INDUSTRY/SERVICE: POST OFFICE

	SETTLEMENT DATE	NUMBER OF WORKERS
Engineers	1 July	131,000
Postal Workers	1 January	196,000
Supervisory	1 January	42,000
Clerical/Executive	1 July	45,000

UNIONS: POEU, UPW, SPOE, POMSA, SPCS, CPSA (Telecoms)
UPW, POEU, POMSA, NFSP (Posts)

1. EFFECTS OF STOPPAGE

Telecommunications

Telephone system is almost entirely automatic for calls within the UK. If not deliberately sabotaged could run for say 2-3 weeks deteriorating gradually, and then more rapidly, as faults are not repaired. For overseas calls the system is 10% manual, so a stoppage would have some immediate effect. ITV programmes could be affected immediately by selective POEU action. It is likely that action aimed at vulnerable points would be used to achieve maximum disruption at low cost to unions.

Posts

No postal services or Crown Office counter services (including pensions, allowances, insurance stamps, Giro, National Savings and Licences). Sub-post offices might continue to operate. Tolerable for a long time, with contingency plans in action.

2. EXPECTED CLIMATE

a 15% pay deal for postmen, incorporating various efficiency measures, has been accepted by the UPW after a branch ballot. No formal pay claims have yet been lodged by the telecommunications unions; very difficult negotiations are expected as the Post Office attempts to introduce a common pay and grading structure in the business. All-out strikes seem unlikely; but limited action may be resorted to again, with possible increasing effect, unless satisfactory settlements are reached in the telecommunications business. Employers would look mainly to price rises to cover increased costs. Staff in both businesses are stronly opposed to relaxation of the postal and telecommunications monopolies and this could raise the temperature.

3. RELATED PROBLEMS

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

Sets financial target - but monopoly industry and difficult to measure efficiency.

5. CONTINGENCY ARRANGEMENTS

a) Services Contingency Plans

None except for essential strategic communications. Troops would be ineffective for assisting general services.

b) Stockpiling and Alternative Resources

Only limited action possible to use sub-post offices more. Private carriers for posts if PO monopoly relaxed. Alternative arrangements for pension payments.

INDUSTRY:

BRITISH OXYGEN COMPANY

UNIONS: Manuals - TGWU, GMWU
Others - ASTMS, MATSA, ACTSS

SETTLEMENT DATES
Manuals - 1 June 1981 (but see para 3)
Others - 1 June 1980

NUMBER OF WORKERS
3300 Manuals
2900 Staff

Effects of a Stoppage

1. BOC hold 80% of the market for industrial gases (their only substantial competitor is Air Products Limited who have little spare capacity) and are the monopoly supplier of medical gases used by hospitals. The manuals, including tanker drivers, have considerable industrial muscle. The unofficial strike of 1977 severely disrupted many sectors of industry especially steel, shipbuilding, motor vehicle and aircraft manufacture.

2. BOC's maximum stocks are about 7 days supply; consumer stocks are likely to range from 2-14 days. It follows that a strike can quickly pose serious problems for essential users. Critical areas are hospitals, pharmaceuticals, food manufacture and British Rail. Defence requirements, the energy industries and sewerage are also vulnerable. Cessation of 'on-site' production would have instantaneous effect, eg on the British Steel Corporation. Industrial action short of a strike, eg a work to rule, could also seriously affect deliveries. The unions would almost certainly want to maintain supplies of medical gases to hospitals and seek to persuade their members to do so, but might well not recognise other critical needs.

Expected Climate

3. BOC's November 1979 pay negotiations resulted in different types of settlements for the 2 groups:-

(a) the manuals reached a 20 months, 2-stage deal which gave 16.7% from 1.10.79, 13.8% from 1.10.80, with the next increase to be negotiated from 1 June 1981;

(b). the staff received 12% from 1.10.79, with the next increase due from 1 June 1980.

4. [Lay delegates representing (b) are meeting on 15 May 1980 to consider an offer believed to be worth about 17½%. BOC hope this will be accepted, but a settlement on a significantly higher offer could cause problems of relativities with the manual grades. The latter may also feel, in October 1980, that their 13.8% increase is no longer acceptable in the light of other, more recent, settlements and the level of the RPI.]

5. The manuals tend to look to oil distribution workers in setting their expectations and the oil companies can be again expected to afford generous settlements. Their last agreement was only reached with difficulty following the rejection of an earlier offer by ballot and there were some unofficial threats of industrial action.

Government Influence Over Employer

6. No direct influence.

Contingency Arrangements

7. (a) Services Contingency Plans: None

(b) Stockpiles: See para 2

(c) Alternative Resources: Air Products Limited - but limited spare capacity, and in 1977 refused to supply industrial gases to BOC customers because of the likely reaction of their own employees. No alternative for medical gases.

(d) Statutory Controls: None.

INDUSTRY/SERVICE	PORTS	SETTLEMENT DATE	NUMBERS INVOLVED
	Bristol, Hull		
	London, Southampton	- 1 January	25,000
	Liverpool, BTDB	- April/May	
	Small Ports	- September	

UNIONS: Registered Dock Workers: TGWU, NASD, GMWU.
Other staff: TSSA, NUR, GMWU, NALGO and others.
(Militant unofficial National Shop Stewards' Committee has considerable influence).

1. EFFECTS OF STOPPAGE

A national stoppage would be very serious but is unlikely.

2. EXPECTED CLIMATE

Claims are negotiated locally. Major industrial action nationally over pay is unlikely. Since there is no great bond between dockers at different ports. But local strikes may occur. They may be stimulated by containerisation, or controversial plans eg BTDB privatisation and closures in the PLA and at Preston.

3. RELATED PROBLEMS

None.

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

BTDB is a nationalised industry with a financial target. London is in need of Government subvention, and Bristol is supported from the rates. Employers inform each other of negotiations but their circumstances are different and individual settlements are made.

5. CONTINGENCY ARRANGEMENTS

a) Services Contingency Plans

Plan 'HALBERD - 12000 men) to unload ships in docks and where necessary distribute perishable cargoes. Under review.

INDUSTRY/SERVICE:	SEAMEN (MERCHANT NAVY OFFICERS AND RATINGS)	SETTLEMENT DATE	NUMBER OF WORKERS
		2 January	45,000

UNION: NUS, MNAOA

1. EFFECTS OF A STOPPAGE

About half UK exports and one third of imports are carried in UK ships. Subject to co-operation from non-UK unions a reasonable proportion of bulk cargoes could be switched relatively easily to non-UK ships. But there would be greater difficulty with other dry cargoes. Oil imports would be unlikely to be affected significantly. Problems would increase after (say) six weeks, especially because of congestion at ports.

2. EXPECTED CLIMATE

Serious industrial action is not likely this year although the employers are approaching the annual negotiations in the autumn, particularly with the officers, with some foreboding. This is partly because the employers may take a tougher line in the present economic state of the industry and partly because the officers were unhappy about last years' negotiations when they settled earlier and for less than the ratings.

3. RELATED PROBLEMS

4. GOVERNMENT INFLUENCE OVER EMPLOYERS

The shipping companies coordinate their stance through the General Council of British Shipping who negotiate on behalf of the bulk of the industry. They are likely to keep the Government closely informed.

5. CONTINGENCY ARRANGEMENTS

a. Service Contingency Plans
No arrangements exist.

b. Stockpiles
Stockpiles of essential commodities eg food, oil, could be drawn upon.

c. Alternative Resources
Exporters and importers could switch to non-UK ships, subject to foreign union co-operation (see (1) above).

d. Statutory Controls
A state of emergency could be declared if essential supplies were threatened. Emergency regulations under the Emergency Powers Act 1920 could be used to prevent ships entering particular ports if they were becoming congested, and to control the departure of ships from the UK.

CONFIDENTIAL

NOTES ON LIST

British Nuclear Fuels - manuals: only a problem if safety cover is withdrawn (RAF might cover)

LA Building Trade Operatives - small non-essential group, follow LA manuals Clegg report awaited.

Water supply craftsmen - they follow manuals

NHS maintenance workers etc - follow private electrical contracting industry.

National Freight - follow road hauliers.

Ambulance officers - small group, Clegg award awaited.

NHS Admin and clerical-follow non-industrial civil service.

LTE Rail Operating grades-follow British Rail

LA non-manuals:recent comparability award.

CONFIDENTIAL

SECRET

File

c.c. Whitmore

11

10 DOWNING STREET

From the Principal Private Secretary

BF for mtg 16/5

SIR ROBERT ARMSTRONG

PUBLIC SECTOR PAY AND
INDUSTRIAL DISPUTES

I have shown the Prime Minister your minute A02079 of 2 May 1980.

She agrees that the Home Secretary should join those Ministers taking part in the meeting and that Mr. Ibbs should also be present.

I will let Mr. Whitelaw's office have a copy of my letter of 23 April to John Wiggins and arrange for him to be invited to the meeting. We will also let Mr. Ibbs' office know that the Prime Minister would like him to attend. X

C. A. WHITMORE

X Both done

6 May 1980

7/5

SECRET

SECRET

1.

Prime Minister -

10

Agree that Mr Whitelaw should attend? Yes

And Mr Ibbs? Yes

2.v.

Ref. A02079

MR. WHITMORE

Public Sector Pay and Industrial Disputes Next Winter

The Prime Minister is to hold a meeting on 19th May to discuss public sector pay policy. In your letter of 23rd April to John Wiggins you said that the Prime Minister thought it would be helpful if, in parallel with the paper which the Chancellor will be preparing on pay policy, a review was undertaken of the likely industrial scene next winter. You have asked that this should be done under Cabinet Office chairmanship. It is now in hand.

2. Since these two pieces of work will be going on in parallel and both will be available for the meeting on 19th May, the Prime Minister may wish to consider whether to add the Home Secretary to the Ministers taking part in the meeting. Apart from the political considerations in favour of Mr. Whitelaw's presence, he has a direct interest in these matters as Chairman of the Civil Contingencies Unit and was also responsible for presenting last year's report on industrial disputes to E Committee.

3. As Mr. Ibbs told the Prime Minister on 30th April, the CPRS is also doing work on policy towards pay in the public sector; I hope that the Prime Minister will agree to his being invited to attend the meeting.

RA

ROBERT ARMSTRONG

2nd May, 1980

SECRET

B/F 16-5-80
for Mtg.

1.

Econ Pol.

PRIME MINISTER

We have arranged the first meeting of the small group of Ministers that is to consider future public sector pay policy for 1600 hours on Monday 19 May. Lord Soames is one of the Ministers invited to attend. He rang me, however, this morning to say that he is already committed to giving a public lecture in Oxford at 1700 hours on 19 May and hoped that, if we were not able to move the time of the meeting, you would allow him to be absent and to be replaced by Mr. Channon. Agreed

We have had some difficulty in finding a suitable date for this meeting and so I should be reluctant to try to rearrange it. May I therefore let Lord Soames know that you are content for him to be absent and to be represented by Mr. Channon?

John Hoskyns has been doing some work in the area of public sector pay policy and has asked me whether he could be present at the meeting. This seems to me to be a good idea. Do you agree?

Yes

TPL.

29 April 1980

Caroline

To note.

I have told the offices of both Lord Soames + Mr Channon.

I have also told John Hoskyns.

TPL
30/4

el. 30/4

CONFIDENTIAL

Econ Pol

Cabinet Office,
Whitehall,
London SW1

28th April, 1980

PS(80) 8

Dear Private Secretary,

Cabinet Meeting, Thursday, 17th April: CC(80) 16th Conclusions

There was a discussion of public sector pay under Item 4 of Cabinet on Thursday, 17th April, in the course of which the effect of the likely Clegg increase on the Rate Support Grant was mentioned. The Cabinet Conclusions indicate that the "assessment of the likely Clegg increase made at the time when the RSG was agreed was 17.5 per cent, which did not fall far short of the 18.2 per cent now recommended". The figure of 18.2 per cent was incorrectly recorded in the Cabinet Conclusions and should have been 19.2 per cent. However, further work on the impact of Clegg which has been done by the Department of Education and Science in consultation with other Departments since the Cabinet meeting on 17th April has now revealed that the impact is expected to be 19.7 per cent. I should be grateful if you could therefore amend your copy of the Cabinet Conclusions by replacing the figure of 18.2 per cent with 19.7 per cent: we are issuing a normal Corrigendum to this effect.

I am sending copies of this letter to the Private Secretaries to members of the Cabinet and to the Minister of Transport and the Chief Whip.

Yours sincerely,

(Signed) D.J. WRIGHT

CONFIDENTIAL

25 April 1980

CLIVE

PUBLIC SECTOR PAY POLICY

I have read your letters of 23 April to John Wiggins. Could I just register with you that this whole area, which spills over into the nationalised industry policy, trade union reform etc, is of great interest to us. I would like to attend the meeting(s) of Ministers which the Prime Minister has asked for.

We are preparing a paper on the lessons learned in the steel strike; NIP will be reporting to E(NF); and I have also discussed with Robin Ibbs the possibility of CPRS doing work on the nationalised industry problem. The need for co-ordination cropped up only the other day on the question of the cost to the electricity industry of coal stocks vs. the risk of a miners' strike.

We tried to raise this whole question with the Prime Minister in the context of the miners' pay award last autumn, but it was not at that time sufficiently near the top of everybody's list.

JOHN

SECRET

Original filed on:- Iran Sit Pt 6.

9

NOTE FOR THE RECORD

The Chancellor called on the Prime Minister at 0900 hours this morning. The following points came up in discussion:

(i) Select Committee on the Treasury and Civil Service

The Chancellor said that the Committee were causing him considerable difficulty in their demands for information and the general tone of their approach to the Government's economic policies. Their first report was likely to be fairly critical, and this was bad for the Government's credibility. Unfortunately, the Chairman and some of his Tory colleagues were being almost as unhelpful as the Opposition members. He was trying to get the more sympathetic members of the Committee, such as Mr. Beaumont-Dark, to play a bigger role in the Committee's deliberations.

(ii) The Exchange Rate

The Prime Minister said that the high exchange rate was beginning to have a serious effect on manufacturing industry. She agreed with the Chancellor that there was no easy way of getting the exchange rate down, and in any case there would be disadvantages in terms of the RPI even if it were possible. Nonetheless, she hoped that the Chancellor was considering what might be done. The Chancellor said that the effect of the exchange rate was to move resources out of the manufacturing sector to consumers, and this was reflected in the recent big increase in real disposable income. But he did not think there was any mileage in trying to reduce the exchange rate: if anything was to be done for manufacturing, it would be better to look at fiscal reliefs. He had this whole question under review.

(iii) Interest Rates

The Chancellor said that the money supply figures for banking April now seemed likely to be worse than earlier expected: instead of a negative figure, sterling M3 was likely to show an increase of $\frac{1}{4}$ per cent. This in itself was not too bad, but it concealed a continued high level

/lending to

SECRET

lending to the private sector. Interest rates had fallen a little partly in sympathy with American interest rates, but it was too early to contemplate a reduction in MLR. The Bank would need to put out a new tap, probably this week, in order to maintain the funding programme.

(iv) Iran

The Chancellor referred to his minute of 28 April and said that he fully agreed with Mr. Nott that it would be very difficult to get legislation through Parliament if sanctions were to apply to existing contracts. The Prime Minister said she agreed. The Chancellor then turned to the question of Iranian assets, and reported that the Governor had recently met Mr. Nobari of the Iranian Central Bank - who had asked for an assurance that we had no intention of freezing. The Governor had given him this assurance, and in answer to further questioning, had made clear that he was not under any pressure from HMG to freeze the Iranian assets. He had explained to Mr. Nobari that the situation would have been different if the UN Resolution had included freezing of assets; but since it had not there was no question of HMG going down this route. Mr. Nobari had told the Governor that he had been given a similar assurance by the Germans and the Austrians. The Prime Minister said she was glad that Mr. Richardson had made our position clear.

T. L.

1 May 1980

cc: Mr. Michael Alexander

SECRET

10 DOWNING STREET

FILE B/F Econ Pol BDS 8

cc Mr Wolfson
cc Mr Hoskyns
Mr Lankester.

= H.O. To see.

From the Principal Private Secretary

23 April 1980

1) B/F 13-5-80 for paper ~~for~~ ~~date fixing~~

AWL 24/iv

Dear John,

PUBLIC SECTOR PAY POLICY

When the Prime Minister saw the Chancellor of the Exchequer yesterday morning on other matters, they discussed briefly the question of public sector pay policy for the next pay round, and the Chancellor described the work he had already commissioned on this. They agreed that it would be useful if the Treasury could prepare a paper which examined the problem of future pay policy throughout the public sector. This would necessarily be a wide-ranging exercise which, as far as possible, made due allowance for the differing circumstances between the different areas of the public sector: it would, for example, need to distinguish between comparability exercises affecting the public service sector and pay in the nationalised industries. It would also be necessary to take into account as far as possible the involvement of the various pay review bodies.

1) The Prime Minister would be grateful if the Chancellor of the Exchequer could circulate his paper in time for discussion at a meeting of Ministers to be held in the week beginning 19 May. Because of the sensitive nature of the subject the Prime Minister proposes to confine discussion initially to a group consisting of, in addition to herself and the Chancellor, the Secretary of State for Industry, the Lord President, the Secretaries of State for Employment, the Environment and Social Services and the Chief Secretary, Treasury. The group's conclusions will need to be referred, in due course, to E.

I should be grateful if knowledge of the preparation of the paper and of the Prime Minister's intention to hold a meeting of Ministers could be restricted to the smallest possible circle of people.

I am sending copies of this letter to Ian Ellison (Department of Industry), Jim Buckley (CSD), Richard Dykes (Department of

/ Employment

SECRET

Employment), David Edmonds (Department of the Environment), Don Brereton (DHSS), Alastair Pirie (Chief Secretary's Office) and David Wright (Cabinet Office). We will be in touch with you and them to arrange the time of the meeting.

Yours ever,

Oliver Letwin.

A.J. Wiggins, Esq.,
HM Treasury.

SECRET

FILE 7 DS

10 DOWNING STREET

From the Principal Private Secretary

23 April 1980

B/F 13.5.80

~~to confirm date~~ ~~for mtg.~~ & report

cc. H.O.

Dear John,

INDUSTRIAL DISPUTES NEXT WINTER

I have written to you today about the Prime Minister's wish to hold a meeting of a small group of Ministers in the week beginning 19 May to discuss public sector pay policy for the next pay round.

The Prime Minister believes that it would be helpful if, in parallel with the paper which the Chancellor will be preparing on pay policy, a review was undertaken of the likely danger points in the industrial scene next winter. This would be on the lines of the report (E(79)27) produced at her request last year by a small group of senior officials from the Treasury and the Department of Employment under Cabinet Office chairmanship. Sir Robert Armstrong will accordingly be setting up a similar group to undertake the new study. Like its predecessor the group will work in strict secrecy in order to avoid damaging speculation, and it will keep enquiries of departments to the absolute minimum needed to do the job. The Prime Minister would like its report to be available for the meeting of Ministers in the week beginning 19 May.

I am sending copies of this letter only to Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

Yours ever,

Clive Whitmore.

John Wiggins, Esq.,
HM Treasury.

SECRET

SECRET AND PERSONAL

FILE

6

DS

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

INDUSTRIAL DISPUTES NEXT WINTER

I have shown the Prime Minister your minute A01956 of 21 April 1980.

She thinks that it would be very helpful to undertake a general review of the likely danger points in the industrial scene next winter, on the lines of the exercise that was done last year. She would like the results of the review to be available in time for the meeting of Ministers that is to be held in the week beginning 19 May to discuss public sector pay policy. I have written today to John Wiggins commissioning a paper on pay policy for this meeting (copy attached) and as we agreed when we spoke this evening, I have sent him a separate letter, copied only to Mr. Prior's office and yours, letting him know about the review of possible industrial disputes in the next pay round (copy also attached).

On reflection the Prime Minister has decided that it would be better to make progress on the general issue of public sector pay policy before focusing attention on the possibility of a rail strike in the next pay round. She does not wish therefore for any work on this to be put in hand for the time being.

CAW.

23 April 1980

SECRET AND PERSONAL

Ref. A01956

MR. WHITMORE

Industrial Disputes Next Winter

You told me that the Prime Minister would like to have an early report from officials analysing the economic consequences of, and the precautionary steps which can be taken against, a rail strike in the next pay round. We will of course put this in hand on a very confidential basis.

2. I believe that it would also be useful to have a more general review undertaken of the danger points for industrial trouble next winter, perhaps on the lines of that produced at the Prime Minister's request last year (E(79) 27). That report was produced by a very small group of senior officials from the Treasury, the Department of Employment and the Cabinet Office, under the chairmanship of Peter Le Cheminant, who worked in considerable secrecy, in order to avoid damaging speculation and kept enquiries of Departments to the absolute minimum needed to do the job. It has stood the test of time, and it should be fairly easy for a similar group to update it. That would provide a framework within which the problems of the railways (and the related problems of the coal and electricity industries) could be set.

3. If the Prime Minister agrees, I will commission both reports to be ready by the end of May, as a basis for her consideration, and discussion with other Ministers, immediately after the Whitsun Recess.

RTA

(Robert Armstrong)

21st April, 1980

070
NJS

PMG Note 29/80

Econ Pol

PAYMASTER GENERAL

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

18 April 1980

2

TO: ALL MINISTERS

MO

PRIME MINISTER

We have asked for a fuller note on the exact relationship between the "catching up" component and the "new money" component in public sector pay.

MJS
18/4

CENTRAL GOVERNMENT PAY

I attach a summary of the Chancellor's notes in explanation of the increases in Central Government pay, together with background notes on the 1980-81 pay settlement.

MJS

(NJS said no need to chase)

Angus Maude

ANGUS MAUDE

CENTRAL GOVERNMENT PAY

Following recent sessions of the Treasury and Civil Service Committee, attention has been directed to the expected increase of 25% between 1979/80 and 1980-81 in central government pay.

This covers broadly the civil service, the national health service and the armed forces. The corresponding figure for the whole of the public services, including local authority employees, is 23%

There seems to have been some misunderstanding of the nature of these figures.

The figures of 25% and 23% are <u>not</u> the expected level of public service pay settlements. On the contrary, the cash limits on central government expenditure provide for an annual increase in the pay bill of 14% through new settlements from their due settlement dates. The rate support grants and transport supplementary grants provide for a 13% increase in local authorities' costs between 1979-80 and 1980-81 for price increases and new pay awards from due settlement dates.

The Government's general policy is that the cost of new settlements must be contained within these provisions. In the civil service the settlement is being accompanied by economies in manpower costs.

The remaining increase in the public service and central government pay bills in 1980-81 arises because the previous Government decided that 'catching up' awards in

/the last ...

the last pay round should be paid not from the due settlement dates but in stages through 1979-80 and 1980-81.

This approach was applied to a very wide range of public service employees, including civil servants, local authority administrative and manual staff, health service ancillaries, nurses, ambulancemen and teachers. The awards resulting from the work of the Clegg Commission and other comparability procedures have been large, as on previous occasions when 'catching up' settlements have followed a period of incomes policy.

Because some stages of the awards were not paid until the latter part of 1979-80, or in some cases not until 1980-81, the full annual cost of these awards was not reflected in the pay bill for 1979-80. It was delayed until 1980-81.

Together with the changes in staff numbers set out in the Public Expenditure White Paper (Cmnd 7841) this delayed cost represents the difference between the figure of 25% for central government pay and the 14% provision for the new pay awards. It accounts for about one-third of the increase in central government and other public service pay bills between 1979-80 and 1980-81.

Paymaster General's Office
Privy Council Office
68 Whitehall
SW1

18 April 1980

BACKGROUND NOTES

1. Mr Channon has announced that the civil service pay award will increase existing rates of pay by some 18¾%. This is brought within the 14% civil service cash limit for 1980-81 by reducing manpower by some 2½% and by delaying implementing the award from 1 April to 7 May.

2. Figures have been given to the Treasury Select Committee suggesting that average settlement figures so far in this pay round are 18.5% for the private sector and 14% for the public sector. The figures (which are not normally released) were compiled from such information as was available to the Department of Employment (and which will already have been overtaken to some extent by new information). They cannot be compared directly with figures from the CBI data bank because of differences of coverage : in particular the CBI information relates primarily to pay settlements in manufacturing.

3. The earnings index published this week, includes the effects of a number of other factors including overtime, the pattern of back pay, staging of pay awards etc and does not provide a reliable guide to the rate of settlements.

4. None of these average figures is an indicator of any "going rate". Individual pay settlements must be based on a realistic assessment of what the organisation concerned can afford. The CBI data bank information suggests a wide range of settlements.

5. As the Chancellor said this week (16 April) "The speed at which inflation falls depends on a number of factors. One of the most important of these is pay bargaining. The more quickly pay bargainers adjust their expectations to the present and planned slowdown in the growth of money supply, the more quickly the short term inflation rate will come down".

SECRET

4 Original filed Iran (Sit) Pt6.

10 DOWNING STREET

From the Principal Private Secretary

17 April 1980

When the Chancellor of the Exchequer called upon the Prime Minister at 0900 this morning the following were the main points which arose in discussion.

IRAN

The Chancellor of the Exchequer said that he had let the Governor of the Bank of England know the conclusions which OD had reached at its meeting on 15 April. The Governor was very concerned that there should be no discussion at the forthcoming meeting of the Foreign Affairs Council of the possibility of taking legislation to provide for mandatory action on Iranian loans, deposits and credits.

The Prime Minister said that OD had agreed that it would be preferable to take action on this point by means of persuasion rather than by legislation. The Chancellor should minute other members of OD explaining the Governor's concern and asking for their agreement that the Foreign and Commonwealth Secretary should not mention the possibility of legislation for this purpose at next week's meeting with the other Foreign Ministers of the Nine.

PUBLIC SECTOR PENSIONS

The Prime Minister said that she remained of the view that Mr. Drain should not be invited to become a member of Sir Bernard Scott's group on index linked pensions in the public sector. Mr. Drain was the leader of a union whose members now enjoyed inflation proof pensions and as such he would find it impossible to make a proper contribution to the enquiry.

The Chancellor of the Exchequer said that he would arrange for Mr. Leif Mills to be invited instead.

PUBLIC SECTOR PAY

The Chancellor said that he hoped to bring forward quickly the work which he already had in hand on public sector pay. In the meantime it was important to correct the wrong impressions which had resulted from his appearance before the Select Committee on the Treasury and Civil Service earlier in the week. There was now a belief

/that the

SECRET

that the going rate for public sector pay in the present year was 25%. He was proposing to issue a statement either today or tomorrow which would make clear that the figures which he had quoted to the Select Committee embraced a good deal of catching up pay awards of the Clegg kind and that they were fully consistent with approved cash limits.

More generally, the future level of pay settlements was critical to the attempt to reduce the money supply. It looked as though the money supply figures for this month would come out satisfactorily, though inter bank lending was still running at too high a level. The new tap stock looked as though it would go well. But the fact was that because pay settlements were still at very high levels, they were putting up borrowing and helping to keep up interest rates.

The Prime Minister said that she would consider including something about the level of public sector pay increases in the speech she was due to give in Birmingham on Monday of next week. Looking further ahead to the next pay round, she believed that it was important to have an assessment of our ability to withstand a national rail strike. This meant essentially forming a view on whether the power stations could keep going during such a strike. She proposed to have a meeting with the Home Secretary, the Chancellor, the Secretary of State for Energy and the Minister of Transport to consider what work needed to be set in hand on this.

SELECT COMMITTEE ON THE TREASURY AND CIVIL SERVICE

The Chancellor said that his appearance before the Select Committee had shown that its members were determined, regardless of Party, to attack the Government wherever they could. Mr. du Cann wanted to maintain the unity of his Committee and not to let it divide on Party lines. The Chancellor added that he was due to appear before the Select Committee again in the near future and he expected that one of the principal areas of questioning would be unemployment. The Committee would be bound to press him for the Government's assumptions and predictions for future trends in unemployment, but he proposed to tell them that there were many areas where the Government could not hazard forecasts.

C. A. WHITMORE

A.J. Wiggins, Esq.,
HM Treasury.

SECRET

2

Ref. A022

PRIME MINISTER

The Next Pay Round

(E(79) 27)

BACKGROUND

At your first "strategy" meeting you asked the Home Secretary to arrange for a paper to be prepared setting out the timing of major pay claims over the next year, the problems which these could involve and the Government's options for dealing with them. At the Home Secretary's request a few senior Whitehall officials, led by the Cabinet Office, produced the report attached to E(79) 27. The gist of their findings, together with a few glosses added by the Home Secretary, are set out in Mr. Whitelaw's covering paper and you need not read further than that unless you wish to do so.

HANDLING

2. You will want to ask the Home Secretary to introduce his paper and then call on the Secretary of State for Employment (who was consulted about it) to add any comments. There is no need for extended discussion but you may care to note five points:-

(a) That the Contingencies Unit is updating its basic plans and the Home Secretary will bring a report to colleagues in September.

(b) That the Home Secretary has asked the Unit to consider the rather special situations which could arise in areas of high unemployment hit by new redundancies. You might ask him to report to you on this in the first instance.

(c) The suggestion that consideration should be given to excluding the cost of redundancies from cash limits (which is not only sensible in itself if it enables larger savings to be made but bears directly on what the report identifies as the largest area of uncertainty in the outlook - the reaction of public sector employees to substantial cuts in their numbers).

SECRET

(d) The view that the highest risk of damaging strikes next winter lies in the related areas of coal and rail transport - where both industries will in any case be pushed to provide enough coal for the power stations given our need to keep oil use to the minimum. You will recall the figures and the difficulties from the report on winter energy supplies which you had from us on 15th June. You might ask the Ministers concerned - Energy, Scotland and Transport - to give you an early progress report on how matters are developing.

(e) The weight which present policies place on macro-economic measures, and the Government's determination, if wage inflation is to be kept under control.

CONCLUSIONS

3. These might be:-

(i) To note the Home Secretary's report and his intention to bring forward further papers on contingency planning in September.

(ii) To invite the Chancellor of the Exchequer to consider and report on the suggestion that redundancy costs might usefully be excluded from cash limits.

(iii) To invite the Secretary of State for Energy, the Secretary of State for Scotland and the Minister of Transport to let you have a progress report on the steps being taken to improve the supply and transport of coal to power stations this winter.

JOHN HUNT

23rd July, 1979