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PRIME MINISTER

Cabinet, 4 June: Civil Service Pay

The Civil Service dispute has now reached the point where every course open to us carries considerable costs. Further industrial action would mean more lost revenue, a longer recovery period, an increasingly embittered Civil Service, and perhaps also declining public support. Going to 7½% this year would cost another £30 million, might have a knock-on effect elsewhere, and might be seen as Government weakness. Allowing arbitration for next year would be likely to cost at least 4% over the cash limit, and would have substantial knock-on effects. Cabinet has to decide which course is, overall, least costly.

Standing Firm

Lord Soames and Mr. Hayhoe said yesterday that the Government would in the end win, if it stood firm: but they thought that would cost more in the end. The Chancellor, however, was not so worried about the extra cost: and he is better placed than CSD Ministers to know. With carefully judged escalation on the Government's side and faltering resolution on the unions' side, the strike may well peter out without further concessions having to be made, and without too much extra damage. That has always been our hope.

Concessions

But your Cabinet colleagues may think this course too risky. Those in charge of Departments where further industrial action is to be taken may fear a public backlash. Cabinet may want to look at possible concessions. In that case it is very important that we resist the temptation to escape from this year's problem by creating an even worse one for next year. Staging is the classic way of doing that: but offering arbitration would be even worse.

Arbitration

If we promise the Civil Service unions guaranteed access to binding arbitration for next year, we can give up any hope of a cash limit in the 4-5% range. I cannot conceive circumstances under which the arbitration award would be less than 9%, even if the going rate is lower, because the arbitrator would be bound to provide at least some element of catching up after this year. The expectation that the civil servants would get at least 9%, and probably more,

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would hang over the whole of the next pay round. The local authority manuals, for instance, who come near the beginning, would certainly raise their sights. Too much depends on the outcome of the next pay round for us to prejudice it before it has even begun.

7½%

You are not absolutely committed to 7%. The phrase you used in the House was that the maximum that could be squeezed out of the cash limit is "some 7%". A trade off with falling manpower is consistent with our approach to pay in other areas. The local authority manuals and teachers settled at 7½%, and the Armed Forces and the entire public trading sector got much more. In the public sector, only doctors and dentists, who did very well last year, have settled for less; the nurses have not yet settled. An extra ½% would not be a big concession to a 15% pay claim. I am convinced it would prove less costly than arbitration next year, although Bernard Ingham believes that so much credibility now attaches to 7% that any increase would be seen by the media as a defeat for the Government.

Gordon Burrett, the CSD Deputy Secretary present at your meeting yesterday, who leads the official team in the negotiations, has told me that he does not think the unions would at present settle for 7½% plus the inquiry (on which sufficient progress has been made for it to be likely that agreement could be reached); they regard arbitration next year as essential. If that judgment is right, it is all the more important that Cabinet does not decide to make any concessions.

J.M.M. VEREKER

3 June 1981

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