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From the President
Sir Raymond Pennock



sent 8/6/7

CH/EXCHEQUER	
REC.	16 JUL 1980
ACTION	<i>Mrs HEATON</i>
COMES TO	<i>CST</i>
	<i>PSS</i>
	<i>Sin & LMS</i>
	<i>M. P. Riddick</i>
	<i>M. P. RAWANA</i>

16th July 1980

PRIVATE

Dear *Geoffrey*

M. DIXON
M. J. J. J. J.

M. Riddick

M. P. RAWANA

Bring to the

M. E. colleagues

Refer E?

James + W. N. C. G.

You will remember that at our meeting on 13 June, I mentioned that we were intending to hold two conferences of chief executives and key industrial relations personnel from selected companies and employer organisations to consider the outlook for pay. The conferences were held on 20 and 23 June, and have been followed by further discussions with members of our Employment Policy Committee and the President's Committee.

Perhaps the three most important points emerging from the conferences were these:

first, a growing determination to secure a substantial reduction in the level of pay settlements in the months ahead and a clear recognition that pay increases cannot continue to match price increases. Although we would like to see more concrete evidence, there were clear indications in the conferences of a decline in settlement levels, particularly in engineering;

secondly, there was a strong feeling that concessions on hours and holidays should be minimised and that it was essential to avoid leapfrogging on these issues between manual workers and staff;

thirdly, considerable concern was expressed about pay in the public sector.

In bringing this concern to your attention in a private letter, I would emphasise that we have no desire to interfere in a matter which is the responsibility of employers in this sector, but I feel I should write because of the impact of public sector pay on our members - both through its effect on pay in their own companies, and through its effect on government expenditure and hence interest rates.

/ ...

While our members are determined to play their part in reducing the rate of pay increases, they believe that there are a number of steps which government might take that would be extremely helpful.

The first would be to bring the work of the Clegg Commission to an end as soon as possible. We appreciate that the Commission has still to complete work on a number of references. We are concerned, however, that even though these references cover relatively small numbers of employees, the Commission's report may attract public attention and, if the awards are for substantial pay increases, raise the expectations of other employees in the early stages of the next bargaining round. There may, therefore, be advantages in government reviewing the remaining references before the Commission to see if they can be withdrawn with the agreement of the parties concerned, and settled more quickly by negotiation.

We believe that there is a case for re-examining the whole role of comparability in determining pay in the tax-dependent public services. This is, however, a complex question, and might best be dealt with by means of a wide-ranging enquiry covering the institutional arrangements for determining public service pay, including the levels at which bargaining takes place and the timing of settlements; the role of comparability; and, if comparability is to have an important role, which groups should be covered by comparability mechanisms, what these mechanisms should be, and the methodologies on which comparability should be based.

Pending the outcome of this enquiry, we suggest that, with the possible exception of those covering the police and armed services, the work of the existing pay research and review bodies should be suspended, and the pay of the groups concerned should be negotiated between the employers and the unions involved in the light of the government's overall economic objectives and within the discipline of cash limits.

We have also considered further whether there would be advantages in government making a single comprehensive statement detailing the financial targets of all the nationalised industries, making clear the responsibilities of both government and boards of the nationalised industries to see that these targets are achieved and spelling out the implications of these targets for pay bargaining between the managements of the nationalised industries and their unions. We feel that this would have attractions, and shall be discussing it with the nationalised industries' chairmen later this month.

As I have already mentioned, our members are determined to do all in their power to moderate the level of settlements. I believe that government action on the lines I have suggested will help them succeed.

Yours sincerely,

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street, SW 1.

