

24 May 1979

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CABINET  
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY  
PAY

Memorandum by the Chancellor of the Exchequer

1. Our Manifesto commitment is to restore responsible pay bargaining. In the private sector this can only be achieved on the basis of tight monetary control and fiscal policy changes aimed at letting people keep more of what they earn. In the public sector our role is more direct. We have said that in the public corporations pay settlements should be governed by what each can afford. But what they can afford will depend on the financial targets we set them, and the cash limits we impose on their borrowing, bearing in mind our aims for them of fair competition and efficiency. We have said that central and local government pay must reflect what the taxpayer and ratepayer can afford. But again we need to decide what this is. So we need to have a clear view of our objectives and methods in this field.

The Immediate Situation

2. We have to make a smooth transition from the position we have inherited to the one described above. We have also to decide how far we should supplement our fiscal and monetary policies with a public discussion involving all parts of the economic and political system with a view to promoting the sense of responsibility we seek to establish.

3. The immediate prospects for prices are worrying. Although there has not been a "pay explosion" in 1979 there has been no overall deceleration in earnings growth this year compared with last; and prices are now moving up. If the Budget includes measures to switch the burden of taxation more on to indirect taxes we could well see further increases in the RPI in the next few months.

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4. The response of the trades unions is bound to be critical. The greatest risks of damaging "confrontation" for the Government are likely to arise in the public sector. If, however, we can deal with the remaining cases in the present round broadly within the pattern already set and without creating hostages for the future, we shall embark on the new pay year in which the main negotiations for the first few months will be in the private sector. We shall then have the opportunity to observe the pattern of developments before the major public sector negotiations begin and hence to build our public sector financial constraints on a realistic basis.

5. In dealing with public sector pay claims, I propose the following:-

(a) Comparability: we have agreed that we must accept the Clegg Commission for the time being and seek to influence the outcome by evidence put to it. We must do all we can to ensure that it makes no immoderate recommendations for 1979/80 and does not lay the foundations for excessively high wage awards in the public sector in the longer term.

(b) Remainder of this round: we accept existing commitments. The remaining difficult cases are in nationalised industries and local authorities. Some or all of the latter may be considered for reference to the Clegg Commission. In dealing with the former, we should encourage the relevant managements to conduct the best negotiation they can, with as little departure as possible from the pattern of other settlements this year, but without quibbling about the detailed structure of offers which is for them to determine, and provided always that they stick to their financial targets or cash limits.

(c) Rate Support Grant 1980/81: as we approach the annual negotiation this autumn, we should take stock of the cost of implementing any Clegg recommendations (of which we should by then have the general shape and some detail), together with any other carry-over commitments, and of our realistic judgment of the way pay settlements are beginning to develop in the private sector. Based on these considerations, together with any deliberate financial restriction we may wish to impose,

we should set a firm figure for the Rate Support Grant which would not then be subject to change in the light of actual pay negotiations. Following this, the local authorities would themselves be left to negotiate without interference.

(d) Public services: we shall need exactly the same process as for the Rate Support Grant, i.e. to assess commitments and expectations in the light of private sector settlements, and to allow for financial economies; we have the advantage that cash limits for the main public services in central government need not be fixed until January/February 1980.

(e) Nationalised industries: in principle we should disengage from individual negotiations, leaving management to reach settlements against the background of fixed financial targets/cash limits. For this purpose, we need to ensure that satisfactory financial targets or cash limits are fixed in all cases. But fixing the cash limits does involve taking a view on how much the industry can and should allow for its future pay bill. Clearly this should vary according to the commercial position of each corporation, though there can be no question of those public utilities with a monopoly position in the domestic market being allowed to exploit it for the benefit of the workforce. There is in any event an urgent need to explore ways of preventing this risk, whether by some more direct constraints on the prospective wage and salary bills for each industry, or by setting and agreeing with the industry targets for improving unit costs or efficiency. It is obviously important for this to be at the heart of our forthcoming proposals on competition policy. I propose that we should look ahead now at the major nationalised industries, whose positions vary considerably, and identify areas in which special problems may arise, particularly of prices or of manning. In all such cases I would propose further discussions, again well in advance of negotiating dates, with the managements of the industries concerned.

The Longer-Term

6. I turn now to the longer-term and in particular to the question of whether we need to develop the idea of a "forum".

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7. Responsible pay bargaining has to take realistic account of financial constraints, including constraints on the economy as a whole. We might be able to help this forward by some public education in economics. We have considered in recent months a wide range of possibilities: a forum to provide annual and public consultation, bringing in a wide range of interests including employers of various types, unions and possibly consumers and the Bank; the use of the National Economic Development Council; a special parliamentary body; a panel of independent advisers; fuller exposition by Government of such matters as monetary targets and their economic implications, or Bank of England reports, in either case providing for public cross-examination and debate. The suggestion of a forum which the CBI have been developing and published in their "Approach to Pay" is only one example, and we are not committed to it.

8. We are at one in rejecting the idea that any consultation process of this kind should be used to establish pay settlement limits or norms. The questions are whether such a process is not so likely to throw up a figure which will be considered a norm that it is too dangerous to launch and, on the other hand whether it could be useful in conveying better public understanding of the processes and prospects of the economy and better understanding by wage negotiators of the climate in which they must make their bargains and of the consequences of excessive pay increases which inflate unit costs.

9. One of our objects must be to avoid formal confrontation with the TUC, and this includes avoiding giving them an excuse or platform on which to take openly a hostile position. This suggests that we should be circumspect in launching any new formal arrangements.

10. I believe that we should pursue these ideas positively, but with care. I propose that we develop in two directions:

- First, we need to develop a preferred choice or choices among the various kinds of consultation and the different bodies, existing or new, to be used for it; I would like to discuss further with colleagues most closely concerned where our preferences should lie, and explore the possibility of launching appropriate arrangements, however modest, during the autumn.

- In parallel, and separately from the special discussions which the Secretary of State for Employment may need with the TUC, I propose to develop informal contacts with union leaders, without setting any immediate agenda or objective, to explore the scope for any cooperative consultation or to test favourable or unfavourable reactions to any particular channels of consultation; I think it important that we should not enter into any relations with the TUC on this subject in which we could appear in the role of demandeur or which might seem to give them an exclusive or dominant position.

11. Both with the TUC, and in wider public presentation, I think we should emphasise our desire to avoid detailed interference with the pay bargaining process and our intention to operate through the general economic and financial climate. We should thus positively encourage responsible bargaining. We shall need to be careful to emphasise that our attitude to the public sector is the aim of fair treatment, with cash limits and other measures designed to give a parallel financial discipline. We shall want to emphasise the advantages of flexibility, rewards and differentials which in themselves are attractive to much of the trade union membership and many of their leaders, and underline throughout our objective of creating a more vigorous, more rapidly expanding economy, whatever the difficulties of immediate adjustment.

12. The question of the treatment of the public services in the longer-term is something which we shall need to consider very carefully. In theory comparability or pay research, properly and strictly applied, should ensure that the public services fare no better and no worse than the sector which is subject to market forces; moreover their pay should follow, not lead, that of the market sector. We all have substantial doubts about how far the Clegg Commission will work in this way, and we should therefore for the moment keep an open mind on the issue. We shall be in a better position to assess the effect of comparability when the present references have been reported upon.

Conclusion

13. I invite my colleagues:-

- (i) to agree that we should deal with the remaining public sector pay cases in the present round and the beginning of the next round on the lines of paragraph 5;
- (ii) to agree in principle that a detailed study be set in hand of how we should handle pay/price questions in the nationalised industries particularly those which have monopoly market power (paragraph 5(e));
- (iii) to agree that we should pursue consideration of the "forum" idea and that I should engage in low-key informal discussions with union leaders on the lines indicated above (paragraphs 7 - 10);
- (iv) to agree that further action on the Clegg Commission as such be reserved until the first five references have been completed;
- (v) to agree that the whole question of comparability which must include consideration of the future of PRU and the review bodies, should be examined with particular reference to its effect on inflation.

(G.H.)

HM TREASURY  
30 May 1979