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MR. WHITMORE

Prime Minister

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cc: Mr. Wolfson
Mr. Duguid

CABINET 14 MAY: CIVIL SERVICE INDUSTRIAL DISPUTE

Lord Soames will be reporting orally to Cabinet tomorrow; no doubt he will cover the extent of the industrial action being taken, the outcome of the union conferences that have taken place so far, and the latest exchange of letters between himself and Mr. Kendall. Mr. Kendall's letter of today's date contains nothing new; if anything, it represents a slight hardening of the CCSU position.

Meanwhile, Mr. Heyhoe's group has concluded its work on possible forms of escalation; and the Lord President will, I understand, circulate the conclusions to his colleagues at the end of this week. He may refer to them in Cabinet. In brief, the consensus of the large employing departments is against the three options under consideration:

1. Imposition of the 7% offer, combined with a refusal to negotiate further;

2. Giving notice that the 1 April operative date will not apply unless industrial action stops;

3. Taking the necessary legislative powers to lay off white collar workers who have insufficient employment as a result of industrial action by others.

Nonetheless, most departments do feel that the first option, imposition of the 7%, would probably work if the right moment were chosen, i.e. at the end of the conference season and at the first sign of weakening of the unions resolve.

I discussed all this with Sir John Herbecq this afternoon. He (and the Treasury) both agree with the view strongly held by our Policy Unit and me against option 1. It would be enormously

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difficult to explain publicly why we were giving 7% to the civil servants without receiving anything in return, at a time when most of the public probably feels that the civil servants should get less. And even if the imposition of 7% did succeed in buying off industrial action, it could not possibly buy off the union demand for arbitration next year, so it would guarantee another bout of industrial action at the time of next year's negotiations. On the other hand, Sir John Herbecq does see some future in a selective alteration of the operative date; that is, notice could be given that those engaging in any future industrial action would have an operative date from the date of settlement, not from 1 April. And he recognises that the lay off provision might eventually be needed.

The CSD are still unwavering on the 7% figure; but they still see arbitration for 1982 as a necessary ingredient in a settlement. The Treasury are privately starting to get a little nervous about the effects of the strike - not because the revenue position is worsening, but because of the cumulative effect on the markets (the effect of the strike on the CGBR, combined with the normal front end loading, will produce an appalling £M3 figure in May, which will be known early in June); but, especially now that the PESC assumptions are becoming widely known, they see no way of offering arbitration for next year. At present, the only winning game plan is to offer no concessions; take somewhat tougher action with the strikers; wait until the resistance crumbles and hope that the unions retreat in too much disarray to come back fighting next year.

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There are no decisions for Cabinet to take tomorrow. The Prime Minister may feel that it would be best merely to note the Lord President's report; and to discuss the substantive issues - in particular, possible escalation - among the group of Ministers who met on 29 April. This group meets anyway next Tuesday morning, to discuss terms of reference for the enquiry; but it would be better, if the Prime Minister's diary permits, to discuss the handling of the current dispute separately. But it really must be done before the Bank Holiday week.

13 May 1981 N.