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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 deuterio-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

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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.H.

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)

16 MAY 1980

