


*Mrs. Thatcher*

Economic Reconstruction Group

Minutes of the meeting held on Thursday 26th  
May 1977 at the House of Commons.

Present: Sir Geoffrey Howe in the Chair  
 Sir Keith Joseph  
 Mr John Peyton  
 Mr David Howell  
 Mr James Prior  
 Sir Leonard Neal  
 Mr Adam Ridley  
 Miss Anne Bulloch  
 Mr Robbie Gilbert

Secretaries



Apologies: Mr Kenneth Baker  
 Sir Ian Gilmour  
 Mr John Nott  
 Mr John Biffen  
 Mrs Sally Oppenheim  
 Mr Barney Hayhoe  
 Mr Brian Griffiths  
 Mr Charles Bell

Concerted Action

The discussion on Proposals for Concerted Action and Fighting Inflation (PG/10/77/30) was continued.

Cash Limits

It had been agreed that the application of cash limits would involve consultation with the public sector trade unions. The scope and timing of such consultations in relation to negotiations on pay were discussed. Cash limits were still a new departure and once unions recognised that pay settlements depended upon the limit set it was almost inevitable that they would want a voice in its determination. It was doubtful whether this would be acceptable. It might possibly be feasible to set the limits retrospectively, in the light of pay agreements already made, or of pay limits already set. But it would defeat the whole purpose of cash limits were to be set and then abandoned after pay negotiations had taken place.

At present the Government were able to set cash limits on the assumption that current restrictions on pay increases were observed. There was virtually no scope for collective bargaining.

If overall cash limits were set by the Government for each Department, larger than anticipated pay increases - for example for the police or for teachers - must involve cuts in another departmental expenditure, on, for example, prisons or schools. This could lead to a wholly new concept of collective bargaining.

It was probable that the unions would object that pay negotiations were a waste of time if the amount of the increase that could be given had clearly been determined in the setting of the cash limits. For this reason it might be impossible to fix the limit before starting negotiations, although it would be necessary to have a figure already in mind. The room for manoeuvre would be narrow, and the consequence of an excessive pay increase would be a reduction in service and possibly in employment. This would have to be made clear to the unions.

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In the case of the railways the practice had been in the past to present the facts to the unions, and if, after a fortnight, they had been unable to disprove the Board's case, to proceed to bargain. The danger now was that the unions, faced with the facts, would simply demand that the cash limit should be increased. It was desirable that the Government should, as far as possible, stand back from the negotiations, but when cash limits were disputed it would be difficult to do so.

Existing bargaining machinery, such as the Burnham and Whitley systems, should be preserved as far as possible within a new structure for determining pay in the public sector. It should be possible to bring the timing of negotiations more closely into line with national budgeting, possibly by drawing negotiations together into a limited period either before or after the annual Budget. But we should avoid creating a situation in which pay of certain groups - such as the police - appeared to be played off against the rest. The consequence of this would probably be that the public sector unions would join together in demanding to take part in the setting of the overall cash limits. It was a danger inherent in movement towards synchro-pay, but we might nevertheless be propelled in that direction.

The position would be further complicated if the PRU were to be re-activated, and produced figures for the increases that the public sector 'must' have on comparability grounds.

The decision on the totality of pay increases that could be given must rest with the Government. Discussion in the concerted action forum might be one way of avoiding entering into formal negotiations on it, although the unions would almost inevitably press the argument that the Government's overall strategy was wrong and, that what was needed was a policy for growth.

It would be wrong to present cash limits as a constraint on pay, making them open to attack as a means of controlling pay in the public sector from which the private sector was free. They should be presented as a constraint on government spending, and as such comparable to the constraints to which the private sector was always subject. The consequence of exceeding the limit would be the loss of jobs - as it would be in the private sector. The nationalised industries should return as far as possible to private sector-type bargaining.

Detailed Comments on PG/10/77/30 (continued from previous meeting)

Counter-Inflationary policy (page 8). The concept of reaching agreement was over-emphasised; it was over-optimistic to assume that there could be a 'generally accepted intellectual framework'. Return to the device of seeking advice from three wise men on any new body of expert opinion, was likely to expose our weaknesses, but a source of better advice for the Treasury was much needed. Progress had been made in narrowing the divergence of views between opposing camps: the need to reduce government borrowing, and to increase the level of profits, for example, were now generally accepted. We would want the Commission to have a substantial input from IBS, but it would be wrong to attempt to set up a new body in opposition to Philips and Drew, Greenwells and other forecasters which had developed independently. The Commission's role would be both to improve our understanding of economic problems and to act, to some extent, as an honest broker. The description in the present draft was rather too mechanistic.

Implications for the improvement of collective bargaining

We had to some extent moved away from synchro-pay as an approach, but this did not invalidate the case for improving the timing of public sector negotiations in relation to the Budget.

Subjects for next meeting. Price control and the CBI paper on collective bargaining would be discussed.

The meeting closed at 12.40 p.m.

AB/LSA.