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Dom. Econ.

SECRET

PAY DETERMINATION

Meeting held in the Leader's Room at the House of Commons on 20th March 1978.

Present: Mrs. Thatcher, Sir Keith Joseph, Sir Geoffrey Howe, Mr. Prior, Mr. King, Mr. Nott, Mr. Howell, Mr. Butler, Mr. Patten, Mr. Shepherd, Mr. Cardona.

The meeting discussed the paper on "Inflation, Pay Determination and the Labour Market" by Mr. Ridley, dated 16th March 1978. Mrs. Thatcher stated that the paper was to form the basis of a paper for consideration by the Shadow Cabinet and for briefing for candidates.

There were severe misgivings about paragraph 2. It did not make clear that the fight against inflation was still of the greatest importance.

The equivocation in paragraph 3 over the best means of controlling inflation was unnecessary. It was now clear that pay policies should be avoided. The introductory paragraphs as a whole were unnecessary.

It was pointed out that there was considerable danger that an announcement of either free or unfettered collective bargaining would induce trade unions to put in big wage claims during an election campaign. Some companies, like Ford, would be negotiating during an October election. We should stress paragraph 29 b) of the paper, which did not envisage a return to free or unfettered collective bargaining. There was a discussion of the problem that the maximum wage increases envisaged by the Government's economic policy, or the average increase envisaged by that policy, might become the minimum demanded by negotiators. It was the practice of trade union negotiators to ask for the largest increase obtained by any other group. On the other hand it was absolutely essential that there should be settlements of different sizes: unprofitable firms should not give increases as large as those given by profitable firms. We would have to distinguish with the greatest possible care between aggregate increases in earnings for the economy as a whole and increases for individual groups.

The dilemma was that one could not have a norm or a guideline which gave the worst firms as much as the best. On the other hand there had to be some kind of guidance about pay because people would interpret monetary targets and cash limits as containing assumptions about pay.

There was a discussion of the special problems of the public sector. Cash limits were not a complete solution. The civil service trade unions would be able to analyse the cash limits as well as anybody else. They would argue about the size of the cash limits rather than about the size of the pay increase after the cash limit had been set. The only possible solution was to identify those groups without whom one could not do.

It was pointed out that if different parts of the public sector had cash limits incorporating different assumptions about pay increases, Ministers would be put under great pressure by negotiating groups. Some independent body might be necessary in order to advise Ministers on cash limits and relativities between groups. Tribunals under judges were undesirable: they conceded too much. It was agreed that in the final analysis competing claims would be sent back from the Cabinet or a cabinet sub-committee to the Treasury. That would be the point at which competing claims were sorted out. It was pointed out that an arena in which public sector trade union leaders could be aggressively occupied was required. They would argue about proporations of cash limits going to particular groups. Some advisory - perhaps objective or independent - body to help in the allocation would be useful. This was not to say that cash limits were valueless: they strengthened the ring fence within which bargaining took place.

There was a discussion of monetary targets. It was thought that it was not the proper task of the Bank of England to establish the monetary targets; the government itself was responsible for doing this. Much of this section of the paper would need to be re-drafted.

There were the gravest doubts about using the NEDC as a forum. This might simply create a larger corporate body which might even conclude that the monetary policy being pursued by a Government was wrong. There was a discussion of the composition of the NEDC. Further thought about it was required, before the decision to strengthen NEDC was taken. It might for example be preferable for NEDC members to be cross-examined by Parliament.

The suggestion in paragraph 19, of setting up a group of independent economists was discussed. This was a suggestion to be borne in mind. Already the world had changed: economic commentare was no longer dominated by the National Institute. Independent voices could help us to establish economic relationships in the public mind.

The machinery of collective bargaining was discussed. It was thought that the paper was insufficiently specific in its recommendations. The Research Department was asked to provide a short paper on restoring the balance of power between employers and unions. It was noted that pay synchronisation was a very difficult objective. More thought was required on pay research.

At certain points in the paper there were references to price controls or investigative powers. There should be no references to any such powers.

The paper should be re-drafted by Messrs. Cardona and Shepherd. It should be cut to four pages, with an eye to preparing defensive briefing, particularly for candidates. The phrase that all spokesmen should use to characterise our objective was "collective bargaining free from Government interference".

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