



Prime Minister

This draft seems excellent. It covers the points - eg. efficiency, supply/demand, PSBR -

Treasury Chambers, Parliament Street, SW1P 3AG  
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which you raised with Professor Clegg

26 June 1979 (record at Play A).  
Are you content?

TL  
27/6

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Minist! - has see  
first amendment, not

GOVERNMENT'S GENERAL EVIDENCE TO THE CLEGG COMMISSION

At Cabinet on 17th May I undertook to clear with Ministerial colleagues a revised version of our general evidence to the Clegg Commission.

..... I now enclose a draft text. It is clearly highly desirable to pass our evidence formally to the Commission as soon as possible. I should therefore be grateful for any comments you or any other recipients of this letter may have by close of play on Tuesday, 3rd July.

I am copying this letter and its enclosure to the Prime Minister, other members of E Committee, and Sir John Hunt.

*Mal Hill*

(G.H.)

[Approved by the Chancellor and signed in his absence]

The Rt. Hon. James Prior, MP

26 JUN 1979



DRAFT

STANDING COMMISSION ON COMPARABILITYGOVERNMENT GENERAL EVIDENCE

The Government offers this evidence to the Commission to draw attention to general issues raised by the Commission's work and its wider context. Evidence about particular cases may also be submitted from time to time.

Background

2. The Commission has been asked to do three things :
  - i. to see whether proper comparisons can be made;
  - ii. if they can, to collect evidence and make the comparisons; and
  - iii. in certain cases to recommend rates of pay based on its findings.

*Now this  
change. The  
present draft  
is case for  
is not included  
- (last)  
and*

~~A case for using the comparability principle arises where~~  
When an organisation provides goods or services which are not  
priced or sold in the market, ~~or operates outside the~~

~~accounting rules of profit and loss.~~ In such circumstances there is no framework in which market wages can be determined, <sup>then use is</sup> and, hence, a clear need to devise procedures which will act as an adequate substitute for it.

3. ~~If Comparability is to be done it must be done properly, which means~~ <sup>be</sup> "comparable pay for comparable work in comparable conditions". What this might mean in practice is outlined below.

#### Job for Job Comparisons

4. The starting point should be rigorous "job-for-job" comparisons :

- a. As far as possible each group or occupation distinguished by the Commission within the public sector should be homogeneous, as should the group outside with which it is compared.
- b. The widest possible range of comparisons should be sought : in particular, care should be taken to avoid any outside selection which may be inappropriately biased by region, by size of company or other accidental factors, the object being to get the broadest possible view of the outside market.

c. Comparisons of the pay of a group with the general level of national earnings are not relevant. Such a linkage rules out the necessary shifts in relative earnings in response to changes in the pattern of supply and demand on which an efficient labour market depends.

d. Comparisons with outside groups which themselves make direct or indirect comparisons in the opposite direction will be misleading and should be avoided, particularly when the relativities each side seeks to establish are inconsistent.

e. It may not be possible to find a precise match in the private sector for public sector jobs. If this proves to be so the Commission should not feel inhibited from reporting accordingly. In some rare cases the Commission may feel able to suggest comparators on the basis of common factors, but these are not so reliable as proper job-for-job comparisons. They should therefore be regarded as giving no more than general indications, which must be heavily qualified in particular by consideration of labour supply and demand in relation to the job concerned.

The danger of historical comparisons

5. Comparisons should be based on current conditions. Past pay relationships, standards of performance and

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market conditions cannot be taken as a proper guide to what is right in the present or future. Links fixed for extended periods, let alone for perpetuity, cannot reflect and must hinder the changes vital in a growing and evolving economy. Recent experience makes this an issue of particular importance. In the last decade there have been periods such as 1973-75 in which public sector pay as a whole grew more quickly than in the private sector, and periods such as 1976-9 when the trend was probably for the most part the other way. In both cases the desire to "catch up" was an important factor behind the claims advanced and the settlements concluded. But this process yielded no advantage to either side in the longer run, and harmed the economy. Such developments must be avoided in future.

Comparable Work and Conditions

6. In making proper comparisons, pay relationships are only one of many important elements to be examined. The other factors which should be taken into account will, of course, vary from case to case. Amongst the most important, and for the most part susceptible of quantification are: productivity, efficiency and manning levels; holidays, hours of work and leave; benefits in kind, subsidised loans, provision of special housing and pensions (including the way in which they are financed and the extent to which they are, by law or practice, protected against inflation). Others are less easily quantified. A cross-

bearing on job security may be obtained from an analysis of the unemployment statistics on the basis of "last job". Other factors include mobility; liability to accept change; inconvenience; flexibility of working practices; the status and esteem conferred by the job; its congeniality; and unsocial hours and physical conditions.

7. The Commission will wish to reflect carefully on how differences in manning levels and productivity are to be taken into account. They cannot be ignored, and the Commission will wish to spell out in its report the differences it finds. If there are significant differences, then equal rates of pay cannot be justified. To give the opportunity for the negotiation of reduced manning levels and improved productivity, the Commission might find it convenient to suggest a range of rates of pay linked to changes in these areas.

#### Supply and Demand

8. The considerations outlined above will, in a properly functioning market, be reflected in people's readiness to enter jobs in the public and private sector, and in the desire of employers to recruit them. The balance of supply and demand thus established is the essential background against which the Commission has to carry out its work. When the Commission makes its own recommendations,

or when others are negotiating on the basis of information it has provided, the objective must be to establish pay levels which even out imbalances between public and private sectors in the demand for and supply of recruits of adequate quality. Temporary or strictly localised fluctuations which are likely to work themselves out fairly quickly are obviously to be disregarded. But where the balance remains out of line for any length of time, the presumption must be that pay conditions or some other factor needs to be altered to restore a proper balance. Achieving a similar balance between supply and demand in both private and public service jobs is usually a decisive practical test of whether genuine comparability has been achieved, and particularly of whether proper weight has been given to factors which it may be difficult to quantify.

#### Further Pitfalls

9. The Government must also draw attention to three issues which often play an important part in pay negotiations, but which should have no place in comparability studies or recommendations based on them :
- a. the past or future rate of inflation;
  - b. views about the "going rate" for pay settlements;
  - c. low pay.



All three are incompatible with the central principle of comparability, which focuses strictly on relative levels of pay and conditions. The particular problem of low pay raises basic questions of productivity, tax and social policy, which are for the most part best dealt with in national policies which affect the whole economy.

#### The Wider Context

10. The Commission has undertaken to make binding recommendations about pay levels and their implementation in the cases of a number of major groups. In accepting this responsibility, the Commission is, in an important sense, acting as proxy for the negotiating process in Central and Local Government. In discharging that task it is reasonable to expect that it will have some regard to the constraints on employers as well as to the claims of employees, and to the wider impact of their recommendations.

11. As regards constraints, the Commission will already be aware of the Government's commitment to reduce the levels of taxes, public spending and public borrowing. This is essential; both in order to master inflation, and to lighten the burden of financing the public sector which is holding back the performance of the rest of the economy.

12. This commitment becomes of central importance when viewed alongside the scale and costs of the groups of public sector employees whose cases the Commission is investigating. The reference on teachers covers 630,000 employees with a pay bill of £3,700 million a year; that on local authority manual workers about 620,000 and £1,900 million a year; that on nurses 410,000 and £1,500 million a year (all employment figures on a "full time equivalent" basis). These three groups alone constitute over 1½ million people, about a third of central and local Government employees, and their pay constitutes over £7 bn, a fifth of all current expenditure on goods and services. An additional 5 per cent on their pay would cost about £350 million. To finance that increase from taxation one might have to:

add 1p to the basic rate of income tax; increase the standard rate of VAT by 1 per cent; add 4p to the duty on a pint of beer, 9p to a packet of cigarettes or nearly 10p to a gallon of petrol; or increase local rates by nearly 10 per cent - over £12 per year on average for every ratepayer.

13. However, given that the levels of public expenditure originally planned this year were excessive and that stringent economies are being sought, the realistic question is not how such additional pay increases might be financed by extra taxation, but rather how they could be accommodated within an unchanged spending total. As

successive Governments have made clear, additional wage costs above those budgeted for will as far as possible have to be offset by economies elsewhere, or reductions in numbers employed. To offset the £400m mentioned above would involve lowering the standards of service to the public by reducing the rest of current expenditure in Local Authorities by (20%), or cutting back numbers employed by about 100,000, or by a combination of both.

14. The numbers and money amounts involved in important public service settlements are such as to affect the balance of the economy as a whole. The level at which public service groups' pay is set therefore may well cause changes in the very conditions on which the judgment of the appropriate increase was made. For example the Commission's work could have a direct impact on inflationary pressure in the rest of the economy if it recommends large settlements and these in turn influence claims and negotiations elsewhere. Here, too, sheer size is a major consideration, coupled with the very wide distribution of public service employees throughout the country and the inevitable publicity surrounding their pay settlements.

15. To take these considerations into account is not to discriminate against the public services. It is to strike a proper balance between their needs and those of other workers and members of the public. It implies

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rates of pay and conditions of service for public service employees no more attractive than is needed to recruit and retain such employees in adequate numbers, and thus no more attractive than are enjoyed by employees doing comparable work with comparable effort outside the public services.

16. The Government, and where appropriate local authorities, must reserve the general right to decide how any recommendations made by the Commission should be financed and implemented, including whether or not increases should be staged, and what provisions should be made for financing or offsetting any extra costs.