

24 October 1980 C

MR LANKESTER

You asked for my comments on Jim Prior's note to the Prime Minister about "Earnings 1979-80".

We have just one brief and general comment. Jim seems to be mostly concerned (and by implication, Geoffrey Howe and Christopher Soames likewise) to "talk down" the New Earnings Survey because it contains such large figures.

This seems to be quite the wrong way round. If our objectives are to create a climate which is (a) conducive to low public sector settlements, and (b) which helps us to explain cause and effect to the public (these huge increases, including the private sector, have to be paid for in unemployment, high MLR, expenditure cuts, higher taxes), the high figures in the Survey strengthen our case. In any case, they are so horrendous, however we talk them down, compared with the realities of our situation, that we risk looking ridiculous if we appear to be investing great effort in making absurdly high figures look slightly less absurd. Better to say that we've all behaved like greedy idiots and are now paying the price, and it would be stupid and (in the public sector) wicked to sustain such behaviour for another year. And we're not going to let it happen.

*JK*

JOHN HOSKYNS

This should be explicitly  
used as a launching-pad for  
announcement of Cash limits &  
the 6% objective



The Paybill of the Public Sector

£Bn	1978	1979	1980	
			(first half)	(second half)
General Government	<u>20.4</u>	<u>23.4</u>	13.8	16.0
Public Corporations	11.1	13.0	8	-
Total	31.5	36.4	22	-

30  
1

~~12~~



PRIME MINISTER

EARNINGS 1979-80

I have discussed with Geoffrey Howe and Christopher Soames the awkwardness we face on the publication of the first results of the New Earnings Survey 1980 on 29 October. The Survey compares the earnings of a large sample of workers in April 1979 and April 1980; and the results are always widely awaited.

2. The Survey shows that average earnings for adult men in the public sector as a whole increased by 25½% and in the public services (central and local government) by nearly 29%. The increase in the private sector was 20½%.

3. There is a presentational problem about the increase for central government which was particularly high at 34½%. This includes both the civil service and the health service. For the major groups within the non-industrial civil service increases ranged from 29% to 42%. These civil service increases include the two staged payments of around 5% and 10% which were part of the April 1979 settlement but which were not paid until August 1979 and January this year. They also include approximately 19% for this year's April settlement implementation of which was in fact deferred until 7 May in order to bring the cost within the cash limit. This inevitably gives a distorted picture because it includes the bulk of two annual settlements in the one year period covered by the 1980 Survey.

4. The increase implemented on 7 May might have been excluded as falling outside the Survey period; but the statisticians thought it right to include it as the deferment of its implementation was exceptional and this settlement traditionally comes into payment in April. Its exclusion, which would have needed to be noted, could well have attracted adverse comment and would have meant that, in a year's time, the 1981 Survey would have shown a very much higher figure than that we mean to achieve. In any case, it is not now practical to re-run the Survey to exclude the 1980 settlement.

CONFIDENTIAL



5. Although Geoffrey Howe, Christopher Soames and I are agreed that we should have had the opportunity of giving political consideration to the option favoured by the statisticians before we reached this point, we are also agreed that the outcome has to be accepted and that we must now ensure that the figures are put in proper perspective on publication. This point has been taken into account in a short article on the Survey which will appear in the Department of Employment Gazette. I also attach a briefing note, prepared by our officials, which, if you agree, Angus Maude might circulate to all Ministers.

6. I am copying this minute to Geoffrey Howe, Christopher Soames and Angus Maude.

A handwritten signature in blue ink, consisting of a stylized, looped initial.

JP  
23 OCTOBER 1980

BRIEFING NOTE FOR MINISTERS

EARNINGS 1979-80

Background

The first results of the New Earnings Survey (NES) 1980 will be published on 29 October in the form of a short article in the Department of Employment Gazette and the first part of the separately published report on the Survey. Each year the Survey compares the earnings in April of a large sample of workers with their earnings in April of the previous year.

2. The article will show that although the average earnings of all adult men increased by 22½%, there was a significantly higher increase in the public sector (25½%) than in the private sector (20½%). Moreover it will show that within the public sector the increase for public services (central and local government) was nearly 29%. Although the breakdown between central and local government will not be published until mid-November, in the second part of the Survey report, the 29% comprises 34½% for central government and 26% for local government.

3. In addition the first part of the survey report will contain, inter alia, separate figures for the major groups within the non-industrial civil service. These show increases for matched groups of staff ranging from 29% to 42%.

4. The publication of these figures might well prompt criticism that whilst the Government has exhorted pay restraint it has in fact allowed public service pay, and in particular pay in the non-industrial civil service, to increase excessively.

5. There are however some statistical oddities in the Survey and it is important that the figures are put in proper perspective when they appear. The article in the Gazette will do this.

6. In addition the following briefing notes are provided to help Ministers counter any ill-based criticisms and to explain the Government's views.

NOTES FOR USE

7. It should come as no surprise that earnings in the public services increased sharply over the 12 months to April 1980.

8. The last Administration's pay policies had the effect of holding down pay in these services more than elsewhere. Before the 1979 Election the pressures thus

created were beginning to be released, for example with the setting up of the Clegg Commission and the restoration or introduction of the concept of comparability more generally. This all provided for an inevitable catching up process; the Government and the tax-payer being left to meet a very expensive post-dated cheque.

9. In fact, taking the last four of five years together, to even out the discriminatory effects of those pay policies, pay in the public services has increased no faster than pay in the private sector. For example, between 1976-1980 the earnings of all non-manual workers increased by 72% and the earnings of the non-industrial civil service by 71%.

10. The way in which a number of public service settlements in the 1978-79 pay round came to be staged has also helped to swell the apparent increases between the 1979 and 1980 earnings surveys. The purpose was to reduce the short-term costs of the settlements. But the result was that the 1979 Survey earnings figures appear artificially low in comparison with the 1980 figures.

11. The increases in earnings between the survey dates do not always indicate the effect of a single annual pay settlement, whether staged or not. For example, in the case of the non-industrial civil service, the increases shown between the two latest surveys include staged payments from the 1979 settlement (only the initial payment of which is reflected in the 1979 survey) of around 5% and 10%, which were paid respectively in August 1979 and January 1980. And they also include the 1980 settlement which, although traditionally due in April, was this year not implemented until 7 May. The effects of much the greater part of two annual settlements are therefore evident in the earnings increase for the service.

12. The catching-up process is past history. The Comparability Commission is being wound up. Public services' pay increases are being held to tough cash limits. This is already apparent. In the last, 1979/80, pay round, settlements were well below the generality of settlements in the private sector and the level of inflation.

13. The Government has made it clear that public sector wage settlements in this round must be sharply lower than last time. Ministers have already referred to the need for public services pay rises to be in single figures. The Government will not finance more than the country can afford.

23 OCT 1980

