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Mr. Whitmore U

21 May 1981

POLICY UNIT

PRIME MINISTER

Original returned to J. Hoskyns.

CIVIL SERVICE PAY: INDEPENDENT INQUIRY

1. We have several points on Robert Armstrong's latest - and much improved - version of the terms of reference. They might seem pedantic, but precision at this stage will pay dividends later.

2. "Fairly remunerated"

We do not think the Lord President should have authority to reinstate this phrase. Pay in a market economy is not a matter of fairness, but one of efficiency. The widespread myth to the contrary should not be perpetuated. (In any case the new reference to the Government's "responsibilities" as an employer provides the right degree of reassurance.)

3. "Control of inflation"

We don't like generalising this point to "the management of the economy". This perpetuates another myth: governments don't manage economies in the full sense implied by that phrase. They have certain limited duties. Pre-eminent among these duties - and widely neglected during the post war period - is safeguarding the currency. Controlling inflation has been the stated top priority of this Government - and even its predecessor. A principle defect of the old system for determining Civil Service pay has been its incompatibility with a policy against inflation. That is why we want a new system.

4. "Structure and organisation"

We agree that this point should go at the end and be qualified by the word "pay-related", in order to emphasise that the inquiry is primarily about pay. But we think the suggested phrase "structure and grading" is too narrow. When the Priestley Commission complained about the narrowness of their terms of reference, they pointed to a host of relevant factors: "structure, grading, complementing and their relationship to the size of the Civil Service, recruitment, training and promotion procedures."

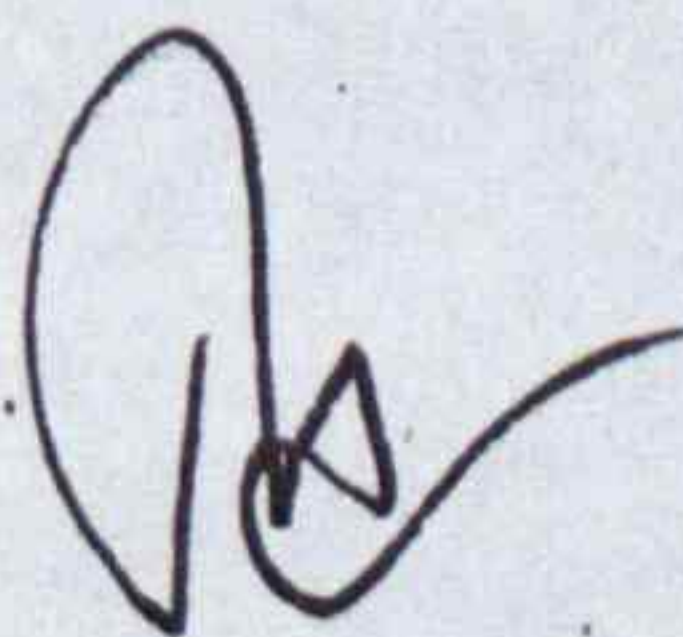
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/5. We therefore

5. We therefore suggest that the last line of the terms of reference should be more open-ended, along the following lines:

"... Civil Service should be determined,
and on any pay-related questions of
management structure or practice."

6. This will leave the inquiry team free to pursue anything they feel is relevant to pay.
7. I am copying this minute to Sir Robert Armstrong.



JOHN HOSKYNS