

CONFIDENTIAL

bcc Howe
Wolfson
Hoskyns

TW



ce/Master set.

ECOM Pol.

10 DOWNING STREET

From the Private Secretary

1 June 1979

Dear Sir,

The Prime Minister held a meeting with Professor Hugh Clegg together with your Secretary of State at 1900 on Thursday 31 May to discuss the work of the Standing Commission on Pay Comparability.

The Prime Minister said that she did not wish to discuss the specific references to the Commission, but only the Commission's general approach. The decision by the previous Government to extend comparability in the public services had, in her view, been an undesirable expedient, and she was very concerned about the way in which the Commission were going to carry out their work. Comparability would have a damaging effect on the public finances and on the economy generally unless it took account of such factors as relative efficiency, supply and demand, regional wage variations in the private sector, index-linked pensions, and the public expenditure implications of the resulting settlements. She feared that these considerations would not receive proper treatment.

This was partly the fault of the terms of reference for the first references, which said nothing explicit about these broader considerations. However, she had noted that the terms of reference provided that the Commission should first assess the feasibility of conducting the comparisons, and she very much hoped that they would be able to build into their work the points which she had mentioned. She was particularly concerned about the problem of over-manning. There was plenty of evidence that some of the public services were grossly over-manned - for example, during the local authority manuals' dispute private contractors had been seen to perform far more efficiently, and likewise volunteers who had substituted for hospital ancillary staff. The objective should be a "highly paid, highly worked" public service; if the Commission failed to look at efficiency, the outcome would be high pay and continued over-manning.

The Prime Minister went on to say that it was crucial that the Commission's first reports should carry conviction. They would be a crucial first test of the appropriateness of the Commission's methodology, and they would set the tone for the subsequent reports.

/In reply,

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In reply, Professor Clegg said that he agreed that the terms of reference had been in some respects inadequate. Aside from the points mentioned by the Prime Minister, he would have preferred not to have had to make binding recommendations. It would have been better if all the references had followed the pattern of the teachers', where the Commission's findings would only be used as a basis for negotiation.

The Commission had seen it as their first task to establish a clear set of principles on which to operate. They had started off hoping that they could rely mainly on "job for job" comparisons; but it was now clear that factorial analysis would have to play an important part, and in the case of the ambulancemen and the nurses this method would have to be applied exclusively because there were no obvious analogues. He agreed that in theory it would be desirable to take into account the factors which the Prime Minister had mentioned. Some of them would be taken into account in the Commission's first reports. They would, for example, be considering the value of index-linked pensions - and their approach might not be the same as that of the Government Actuary, about which doubts had been expressed; they would also look at supply and demand, though this would have to be as a check on their findings rather than as a basis for them. But it would be impossible, in the time available, to consider relative efficiency and over-manning. Even though there was certainly casual evidence of over-manning in the public services (as there was also in parts of the private sector), it was extremely difficult to quantify its extent. Detailed and extensive studies would be required to produce hard evidence, and there were also major problems of methodology. It would be counter-productive for the first reports to include specific recommendations to reflect lower efficiency if these could not stand up to close scrutiny. The Commission intended to look at efficiency in their later reports. But the first reports (due by 1 August) would only be able to say that efficiency and over-manning were important considerations, but that quantification had not been possible. This would be in line with the CBI's evidence to the Commission which suggested caution on this point.

The Prime Minister said that she was very disappointed to hear what Professor Clegg had to say about efficiency. This only confirmed her fears that the Commission's first reports would produce inflationary settlements. She asked Professor Clegg to consider the implications for the future reputation of the Commission; and despite the practical difficulties of conducting efficiency studies, at least to make some allowance for the efficiency factor. She wondered whether the Commission was adequately staffed.

Professor Clegg said that the Commission would do its best to produce reports which would meet the Prime Minister's concerns, but he could not promise to include anything specific - at least in the first reports - on efficiency. As regards staffing, the Commission would need an additional staff-member to consider longer term issues; but otherwise, with the assistance of PRU and outside consultants, the current staffing was adequate.

/I am sending

I am sending copies of this letter to Tony Battishill
(H.M. Treasury) and Martin Vile (Cabinet Office).

Now over,

Tim Laker

I.A.W. Fair, Esq.,
Department of Employment.