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15 October 1980  
Policy Unit

PRIME MINISTER

*Original returned*

ARBITRATION IN THE PUBLIC SECTOR

This very important topic comes to E on Thursday:

1. THE PRINCIPLE

1.1 The concept of unilateral access to binding arbitration makes a nonsense of free collective bargaining. Especially when combined with strong bargaining leverage, it puts the unions in a "heads I win, tails you lose" position: they can bargain as hard as they like, threatening industrial action, including selective action (against which management are powerless to lay off those affected). Then when they have extracted the maximum possible offer from the management side, they can insist on arbitration in the hope that it will split the difference between the already unrealistic offer and their still more unreasonable demands. There should be no question of tolerating arrangements like this. Jim Prior accepts that the "balance of the argument .... is generally .... against unilateral access".

2. PUBLIC SERVICES : TIMING

2.1 There are eight cases in the public services sector (excluding the police) that need looking at - set out in E(80)113. Inevitably, sponsor Departments will be less than vigorous in overturning the status quo. We think it very important that each sponsor Minister leaves the meeting determined to get the procedures changed, with a firm deadline for reporting back.

2.2 If at all possible, we should be aiming to change these arrangements in time to affect the outcome of the coming pay round. We do not know how much notice is required, nor does the paper give any indication. Legislation would be needed in the case of the teachers and water workers. How long would this take? Another argument for urgency is that, as you yourself have said "recession is the time to put your house in order".

3. NATIONALISED INDUSTRIES

3.1 We do not agree with Jim's view that "we are too distant from negotiations in the public trading sector to wish, or to be able, to change arbitration arrangements there". Nationalised industries pay is the most intractable aspect of a very difficult problem. The more one thinks about it, the more one is driven to the conclusion that:

- (a) the best solution is to denationalise wherever possible and to introduce the healthy influence of competition, whether from imports, ending monopolies, decentralising etc, etc. But this is not practicable in all cases - or even in many cases in the short term.
- (b) The second best solution to the problem is quite different: it is to increase the strictness of the regime under which these monopolies operate.

3.2 EFLs are part of the system, but experience so far shows they are an insufficient discipline in themselves. We do not know the answers yet, but we cannot believe that the right approach to a matter like the arbitration arrangements is not even to study them! You will recall that recently you received a note from Keith advocating that the Post Office should be allowed to increase postal charges by 19% after only 11 months. The same note referred to a moral obligation to accept the outcome of arbitration. This is a charter for one large and unproductive group to place a massive burden on the rest of the community. It cannot be right. Difficult as it may be, we think sponsor Departments should be required to look at the arbitration arrangements in the public trading sector, as a matter of urgency.

4. OTHER CHANGES

4.1 Finally, in the public services, it is not only arbitration arrangements that need to be looked at - though these should have priority. Several other changes should be considered:

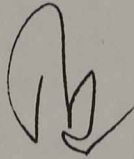
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- a) In some cases, the bargaining structures are wrong. For example, the university teachers' arrangements, where the two sides of the negotiating table at committee A become one side in committee B, seem to us to be designed to produce excessive awards.
- (b) We also believe (we have made this point before and I know there are counter-arguments) that the lack of synchronisation between public service pay dates and the annual cash limits which are supposed to provide the constraints within which negotiations take place is very confusing.
- (c) Last, but not least, is the over-centralisation of pay bargaining structures in the public service. There are pros and cons, but we strongly believe that, as our Manifesto said, the present arrangements tend to be unresponsive to local market conditions - meaning that we are paying more than necessary for many public service workers in areas of higher than average unemployment. When Ministers discussed this in February they decided against a comprehensive review. But there has been precious little response in the few areas in which further work was to be done. For example, CSD were originally supposed to report on the scope for regional pay differences within 3 months.

4.2 We are increasingly concerned that colleagues seem much too reluctant to make important changes in arrangements which affect unions. We do not, I hope, underestimate the very real difficulties. But the rules we have inherited reflect past weaknesses and, if left unchanged, practically guarantee that we shall not be able to bring public sector pay under control. Controlling it is crucial if our economic strategy is to have a chance - as recent discussions have emphasised all too clearly. Similarly in the private sector, the unions' position is temporarily weakened by high unemployment. But we must lay the foundations soon for a workable system for the next upturn. The Green Paper exercise will be critical.

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4.3 I am copying this minute to Geoffrey Howe, Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in dark ink, consisting of a large, stylized 'J' followed by a smaller 'H' and a final flourish.

JOHN HOSKYNS