



Ref. A05023

PRIME MINISTER

m Cabinet: Civil Service Pay

For obvious reasons this has not been included on the circulated agenda, and there is no memorandum. Ministers will no doubt expect, however, to hear a report on the state of and prospects for the dispute; and the Lord President is likely to reopen the matters discussed at your restricted meeting on 2nd June.

① 2. You may like to divide the discussion into two parts: a review of the state of and prospects for the dispute, and a consideration of the arguments for and against the concessions which the Lord President thinks might make it possible for him to settle the dispute soon.

The state of the dispute

3. You could ask the Lord President to open; and other Ministers to follow with Departmental reports: the Chancellor of the Exchequer, the Secretary of State for Defence, the Secretary of State for Trade, the Secretary of State for Scotland, the Secretary of State for Social Services, the Minister of Agriculture and the Secretary of State for Transport.

Should we attempt to settle the dispute now?

4. I think it is common ground that there is a "window" now, which closes at the end of this week after which the unions are committed to escalate. The Lord President, whom you will no doubt invite to open the discussion, will argue that there is no possibility of settlement now without:

(i) a token concession on the amount this year;

(ii) agreement to allow arbitration in 1982, subject to Parliamentary override.

He will say that, if authorised to offer these concessions, he would not do so unless he was reasonably sure that they would produce a settlement. It is clear that the union leaders are very anxious to settle quickly if they can; they fear that, if there is further escalation, influence will move more and more away from the moderates to the militants. But they cannot settle without something.



5. Ministers have a difficult political judgment to make, and you may like to take them through the four main elements in it:

- (i) the effects on Parliamentary and public opinion;
- (ii) the implications for other public service settlements;
- (iii) the comparative costs of standing firm and of escalating;
- (iv) the effects on the Civil Service.

6. On (i), the Government's response to this dispute is being anxiously watched by its supporters in Parliament, by the private sector, and by groups like the doctors and dentists (held to 6 per cent), the nurses (still to settle as from 1st April), and the local authority administrative, professional, technical and clerical staff (settlement due as from 1st July). It is above all essential to maintain the principle of settling within a 6 per cent cash limit in the public services. The 7 per cent already offered can be contained within an overall 6 per cent cash limit; so in practice could $7\frac{1}{2}$ per cent, in the Civil Service, but how would the extra $\frac{1}{2}$ per cent affect the prospects for settling with the nurses, where there is not the same freedom for manoeuvre within the cash limit? Would a move to $7\frac{1}{2}$ per cent, justified as being able to be accommodated within the 6 per cent cash limit, be regarded by the Government's supporters and by the private sector as a "sensible marginal adjustment to secure a settlement" or as a "cave-in by the Government"? If the unions escalate the action, and the consequences for the public get worse - difficulty in drawing social security and unemployment benefit, further interference with air travel, inability to get passports, etc. - the unions will no doubt be blamed; will public opinion stay behind the Government?

7. On (ii), other public service settlements, the doctors and dentists have been held to 6 per cent; local authority manuals have had $7\frac{1}{2}$ per cent; NHS manuals have had $7\frac{1}{2}$ per cent over 15 months; teachers have had $7\frac{1}{2}$ per cent, all within 6 per cent cash limits. The nurses will have to be held near to 6 per cent if the cash limit is to be held. They are to discuss their settlement on 9th June. NHS administrative and clerical staff (due on 1st April) are waiting for the Civil Service, whom they have normally followed. Local authority APT and C staff



have claimed 14 per cent from 1st July. They have the right to arbitration. Labour-controlled local authority associations may be less ready to resist the claim than we would wish. From that point of view, is it more advantageous to get a settlement for the Civil Service at $7\frac{1}{2}$ per cent to set an example of moderation or to stick to 7 per cent and have a continuing dispute as an example of firmness of purpose? The Secretaries of State for Employment, Social Services, the Environment and Scotland may have views.

8. On (iii), costs, it is extremely difficult to quantify. The direct extra cost of settling at $7\frac{1}{2}$ per cent would be about £30 million a year; but there would be indirect costs elsewhere, to the extent that this reperculated. There would be both costs and savings from escalation: increased costs to the Government as further delay in revenue receipts increased borrowing and therefore the debt charge (the Chancellor of the Exchequer to comment); increased costs for the more difficult recovery (the Lord President; and a number of Departmental Ministers, including the Chancellor); some prospective staff and other savings forgone (I understand that the introduction of taxation on certain benefits, now scheduled for 1st April 1982, would be bound to slip: the Secretary of State for Social Services may be able to comment on this). On the other hand the Government would be saving on non-payment of VAT repayments, social security and unemployment benefits etc. There are also indirect costs: the airlines are losing revenue as a result of flights cancelled and passengers diverting from British airlines, and this is making the cash position of British Airways and the independents increasingly difficult (the Secretary of State for Trade may be able to say something on this). It is extremely difficult to calculate and therefore to strike any balance of costs; but Ministers should have at least a feel for this aspect of the issue, as part of the overall political judgment.

9. In the cost equation it is also necessary to count the costs of conceding arbitration next year. They could be high; but then so could the costs of not conceding arbitration: we could find ourselves next year in a situation exactly like this year, with the Government looking for a settlement of 5 per cent or less and the unions for at least the going rate and preferably something to "catch up": these are the ingredients of a more serious and damaging dispute than anything we have seen this year.



10. As to (iv), the effects on the Civil Service itself, Ministers should be in no doubt about the effect that the dispute has already had on the sense of loyalty to the Government; that will become worse if the dispute is escalated. A growing number of relatively senior people are saddened and dispirited: "this is not the Service we joined". Escalation will strengthen the hands of the militants, will reduce willingness to co-operate in the implementation of policy changes (in such matters as overtime to implement tax changes, introduction of new technology), and increase the extent of "politicisation" in the Service. But of course there is the risk of wider penalties for escaping these costs.

Alternatives to the Lord President's proposals

11. You may want to take Ministers through alternatives to the Lord President's proposals:

- (i) the threat to postpone the operative date until the end of the dispute;
- (ii) imposition of 7 per cent for 1st April (with or without a concession on arbitration in 1982);
- (iii) legislation to enable employers to lay off white-collar workers for whom there is no work as a result of industrial action.

12. I believe the Secretary of State for Defence, taking stock of the state of feeling in his Department, may argue for imposition of the 7 per cent for 1st April, in the belief that, while there may be some continuing guerrilla action, it would not last long, and that most civil servants would be relieved to have the knot cut, to get their 7 per cent, and to start getting back to normal (though the problem of next year's settlement would remain). If Ministers are attracted by this option, there is a political judgment to make on the timing: is it better taken before the escalation of the dispute has time to get established, or after the escalation has run for a time and there has been a chance to see what support it has?

13. If the escalation was reasonably successful from the unions' point of view, it might become difficult to escape the need for legislation: the Chancellor of the Duchy, the Secretary of State for Employment, the Chief Whip and the Lord Chancellor may like to comment. The key issues being whether such legislation could be passed at all, and if so how quickly?



14. A threat to postpone the operative date might be more effective than imposition if the escalation proved to be a damp squib; but it hardly looks appropriate just at the moment (and might be counter-productive).

15. One possible outcome of the meeting might be to give the Lord President authority to make one of his concessions but not both. He might be authorised to offer arbitration in 1982 (subject to the right of Government to go to Parliament to override the award) but to offer nothing more in 1981. That just might bring a settlement, but I think that the Lord President would judge it unlikely to do so, and the more likely outcome is that the concession would be offered, that it would be enough to keep negotiations going but not to reach a settlement, and that the Lord President would be back next week for authority to increase this year's offer. Nonetheless, it may be worth trying.

16. On a point of detail, if there were any question of offering more this year, I believe that the idea of a conditional "lump sum" in December subject to the money being available within cash limits is too clever by half. The amount in question would, I understand, be about £35 a head. I personally doubt whether the unions would settle for it. Even if they did, there would be high risk of another row in December, if in the event there was not enough money within the cash limit. Furthermore, it could too easily be presented as a "reward for taking industrial action". If there were to be any concession on this year's offer, it would surely be better as a straight extra $\frac{1}{2}$ per cent on the 7 per cent.

CONCLUSIONS

17. I am afraid that this brief is long in length, long in unanswered questions, and short in advice or proposals for conclusions. The arguments for trying to settle are seductive: they always are. On the other hand the political case for standing firm and making no even marginal concessions is clear and strong. Before confirming a decision accordingly, however, Ministers should have in their minds the best assessment they can get or make of the costs and longer-term consequences of escalation and a continuing dispute, and of the risk that public opinion could turn, if the effects of the dispute became increasingly tiresome and disruptive and the unions succeeded in establishing a propaganda


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case that the Government had been "rigid and inflexible". It is important for your own position that they should not be able to turn and say later on: why did we not think, or why were we not warned, of this?

A handwritten signature in black ink, consisting of a large, stylized 'R' and 'A' intertwined.

 . ROBERT ARMSTRONG

3rd June, 1981

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