

C(79) 6

COPY NO 76

15 May 1979

CABINET

THE WAY FORWARD ON PAY

Memorandum by the Secretary of State for Employment

1. Nearly half of all employees, in both the private sector and the public sector are due for settlements between now and the end of July. The average level of settlements was rising under the previous Administration and is currently, in the private sector as in the public sector, around 13 per cent, to which must be added around 2 per cent "drift". It would obviously be very damaging to competitiveness, investment and employment if the level of settlements rose much above that figure for the rest of this round or failed to be reduced substantially in the new round of settlements beginning in the autumn.
2. Our policy is to encourage responsible pay bargaining, broadly by requiring negotiators to face up to the consequences for competitiveness, investment and jobs of the agreements they make. A firm monetary and fiscal policy provides the essential framework, reinforced in the public corporations and the public services by adherence to strict cash limits.
3. Monetary policies will not of themselves, however, necessarily prevent unions in powerful negotiating positions - as very many are - short-sightedly pursuing excessive claims with insufficient regard to employment consequences. Simply to let these consequences flow, for their long-term educational effect, could involve serious damage to competitiveness, investment and jobs from which it would take some time to recover. It is essential to develop "enlightened self-interest" before not after, such a sequence of events.
4. Several policies have a part to play in this educational process:-
 - a. Industrial policy: a tougher but reasonable line on "lame ducks" can have an exemplary effect without endangering the whole economy.
 - b. Industrial relations policy: reasonable action to redress the balance on the lines we propose has a contribution to make, but is not a panacea.

- c. Taxation policy: particularly reward for effort and success.
 - d. Cash limits in the public sector: must be realistic if they are to be firm, and can affect investment or the level of service rather than pay.
5. Other important ingredients will include:-
- a. The improvement of collective bargaining procedures; along the lines advocated by the Confederation of British Industry (CBI) and others, with the Advisory Conciliation and Arbitration Service playing a constructive role.
 - b. Development of competition policy: particularly to ensure that monopolistic enterprises, whether in the public or the private sector, are not in a position to finance, by raising prices, high pay settlements reached to buy industrial peace without regard to repercussive effects on other enterprises; we are bedevilled by the problem that what one group gets, another expects - eg electricity workers whose pay is a relatively small element in total costs can set the pattern for postal workers whose work is very labour intensive.
 - c. Disciplined comparability as a basis for pay negotiations in the public services: not necessarily to the exclusion of other factors, but essentially conducted through a unitary system rather than a series of leap-frogging ad hoc enquiries; the Standing Commission on Pay Comparability provides a basis for the development of this; cut backs in public expenditure and civil service manpower will be less provocative if there is a commitment to maintaining the pay research system and fair comparisons.
6. However, none of these policies, singly or together, can induce responsible pay bargaining without wide public understanding and acceptance of the Government's economic objectives. This is not just a matter of discussions at top level with the CBI and the Trades Union Congress (TUC), important as these are. It must also be carried through at all levels of industry - where management have a leading role to play - and by direct appeal through the media and their economic commentators to individual employees and those who represent them at shop floor level.
7. I therefore recommend:-
- a. Early talks (before the Budget) with the CBI and the TUC (separately, at least initially) on objectives, capitalising so far as possible on the TUC's acceptance in the Joint Statement with the previous Administration, that inflation needed to be curbed and that this required responsible pay bargaining.

- b. Taking every opportunity to present our case to the country - to demonstrate our commitment to an informed, open debate and development of the economic forum approach.
- c. A first priority in all these talks would be to avoid escalation of the level of settlements for the remainder of this round, pending clarification of objectives for the future.
- d. The fixing of reasonable monetary targets and cash limits, which can be realistically maintained; this means some departure from current cash limits for 1979-80.
- e. Continuation of Pay Research for the non-industrial and industrial Civil Service, of Review Bodies, and of the Standing Commission on Pay Comparability at least for the time being; consultations with the unions on how the results are to be reconciled with cash limits in line with our Manifesto commitments.
- f. Sponsor Departments to maintain close liaison with public corporations on pay negotiations to ensure i. no abuse of monopoly positions where they exist; ii. proper consideration of repercussive effects (pending development of a more effective 'public employers' club').
- g. The Department of Employment to continue informal monitoring of private sector settlements on its traditional voluntary basis and to co-ordinate periodic information reports to Ministers on the pay situation generally.

J P

Department of Employment

15 May 1979