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To: MR STOWE

From: SIR KENNETH BERRILL

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1. Cabinet Committee E is due to discuss pay policy against the background of papers by the Chancellor of the Exchequer(E(79)5) and the Secretary of State for Employment (C(79)6). I understand that the discussion will only be a short one but the Prime Minister might like to read the attached note by the CPRS. It does not address itself directly to all the points raised in E(79)5 and C(79)6 but attempts to look fairly generally at the fundamental issues in the pay area now confronting the Government.
2. I am sending a copy of this minute and attachment to Sir John Hunt.

KB

31 May 1979

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A Note by the Central Policy Review Staff

This note looks at the actions which need to be taken by the Government in the pay area in the period between now and the end of 1979. It attempts to set these short-term requirements in a longer-term, strategic context.

It goes without saying that containment of inflation is at the heart of the Government economic policy. Failure in that field would mean not only rising social discontent (and defeat at the polls) but continued low industrial investment and increased unemployment.

Strict fiscal and monetary policies are essential ingredients - and the ingredients most readily under Government control. The Government intends to be strict both in the general and in the particular (less help for lame ducks, less employment support schemes). But in the circumstances of the UK this will not be enough; basically because the forces in our labour markets are unbalanced and incapable of providing "responsible free collective bargaining" (in the sense of achieving wage settlements at levels which are reasonably related to prospective increases in output). And there is every evidence that things have been getting worse rather than better - with the balance of forces in the labour market becoming even more one-sided.

The Government will go into the pay round next autumn against a background of an increased rate of inflation (15%), and large awards for particular (public sector) groups. The traditional trade union approach will be to get compensation for the past year's inflation plus something on "special case" grounds. Can anything be done apart from fiscal and monetary discipline?

What should be the Government's objectives in the pay field? Possibilities include the following:

- i. The aim is not pay restraint, but higher pay for higher effort. This is a more positive message. ~~_____~~
- ii. The object should be to try to make the labour market work better. This is easier said than done. We have got used to national wage rates and existing relativities, irrespective of supply and demand or differences of performance.
- iii. Change will have to come gradually. There is no way of imposing change except by public consent to what is regarded as reasonable. Some measures can be taken to redress the balance over powers and immunities of the unions but a policy of widespread direct confrontation will not succeed.
- iv. Public opinion must be mobilised. Wherever possible the consequences of "excessive" pay settlements should feed directly and obviously through to prices and/or unemployment.

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- v. Preparations should be made to withstand strikes. If a change of attitude is to be achieved, there must be some successes. This may need contingency planning, support for employers etc. One cannot rule out a state of emergency and the use of troops. Even a statutory pay policy should be kept in reserve. (It is likely that, to achieve a sharp reduction in the rate of inflation, there will need to be at least one year in which earnings rise less than prices; and it is certainly not clear that this can be achieved by voluntary means).

There is little scope for a change of direction during the remainder of the current pay round. The most difficult outstanding cases have been referred to the Clegg Commission and this reduces the likelihood of industrial action. There is a lot to be said for treating this as a "clearing-up" operation, which should remove the main outstanding sources of grievance - after which it would be legitimate to change the rules of the game. This would suggest honouring inherited commitments in the public sector, but without prejudice to future treatment of the groups concerned. Nationalised industries and local authorities who have still to settle should be encouraged to follow the pattern which has already been set for the round.

Private Sector

Strict monetary policy is a necessary, but not a sufficient, ingredient. The message has to get across that the logic of free collective bargaining will be pursued. This means that some companies will be able to afford big increases: others in the same industry will not. Rewards will depend on profitability. National wage rates and maintenance of existing relativities are irrelevant to this approach. It is the policy the unions have asked for but they must be prepared to live with the consequences.

So far as Government is concerned the policy requires that there should be no bailing out of companies which get into difficulties by paying wages they cannot afford. It is worth considering whether employers can be mobilised to withstand strikes. Employers will need to take their workers into their confidence about the effects of pay settlements on the future of the company. This implies some form of worker participation, though almost certainly not at Board level. It will be necessary to persuade the work force that resources are required for adequate investment; and that there may well be a trade-off between pay and employment.

In the light of all this what can be done between now and the end of 1979 to improve the operation of our labour market; to begin to restore the balance of forces - or at least make people think that the balance is shifting.

Possible Improvements

The first possibility is a (tripartite) "forum" to help educate trade unionists and the public generally on the realities of the increase in resources likely to be forthcoming in the year ahead and the level of wage increases likely to be compatible with containing inflation.

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Education is always important because what people know and believe has a major influence on the way they act. And even unpalatable realities finally sink in. There is increasing public awareness of the parlous British performance, - especially in manufacturing industry and increasing acceptance of the fact that if productivity is likely to go up by 2% a 10% wage round will mean both price increases and unemployment (probably more of the former than of the latter).

But it would be a mistake to expect a great deal from a forum - especially in the short run. People can accept general propositions about inflationary wage claims while feeling, understandably, that whatever the going rate is they should get it and if a "pay anomaly" has developed that should be rectified too - no matter what the consequences for inflation and employment. (Even if over time employment in their own industry falls the chance of them personally being made compulsorily redundant is small.)

Facts about a Dispute

A measure of public education in addition to the "forum" which might be useful is for the Government (or some independent group of institutes) to publicise the basic facts at issue early in an industrial dispute. Extremely misleading 'facts' are put out by both sides in a dispute and the media give prominence to the most extreme figures. Independent publicity of basic facts such as average weekly earnings (and fringe benefits) of those involved, how much is at issue between the two sides, how long it would take a striker to get back the money he is losing by being on strike etc. could help.

Trades Union Organisation

It is perhaps a paradox that redressing the balance of forces in the labour market and restoring conditions for responsible free collective bargaining could mean in some respects strengthening Trades Unions. That is to say strengthening the power of the trades union leadership at the centre to discipline local irresponsibles.

The inadequacies of our trades union structure have long been recognised: - the fragmentation of unions; the competition for membership which limits the ability of the centre to discipline local wildcats; the weaknesses in the selection, training and tenure of their officials etc.

Some improvements have been made - the number of unions has fallen, more money is spent on research, and full-time officials have a better pay and career structure and better qualified people are being attracted to the job. But much more needs to be done. One line of approach is to provide money - money for secret ballots (for election of officers, for calling strikes) money for training and research (as is provided now for courses on the new Health and Safety at Work Act).

Another line of approach is to require change as a qualification for being a recognised trades union with the legal privilege enjoyed by trades unions. The requirements might cover (i) that the union constitutions covers certain broad elements - including secret ballots and the power to discipline local members for acting without the authority of the union. (ii) withdrawal of recognition if the trades union failed to honour contracts and procedures it had entered into or failed to discipline any of the members who so acted.

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Such changes in the law would meet very strong resistance from the trades union movement and there would be real difficulties of definition and enforcement. A quick look at material on the practice and experience in other countries in this field could be useful.

Picketing

Many cases of industrial action do not involve picketing to be effective - the go-slow, the work to rule (teachers' 5-hour day), the small but crucial group (computer operators, Leyland toolmakers), the 'solid' big group (Engine Drivers). But last winter's experience has concentrated attention on the picketing issue and it is one which must be tackled.

What has happened in picketing in the UK is not so much that the law has become more favourable to the picket but that the practice has moved in his favour and his weapons of intimidation have been strengthened. The practice has changed in that increasingly he has come to be granted the right to obstruct. (to put barriers across the entrance to plants or hospitals, to put braziers on the footpath to keep warm.) And the police seem to have adopted the policy of regarding their main objective as keeping the peace rather than keeping the road and footpaths clear.

But perhaps the main problem is the increased fear of the closed shop; of the black-leg label. There always was, and always will be, genuine reluctance to cross picket lines for a whole mixture of motives - many admirable. But the fear of the possible consequences seems recently to have increased quite sharply. A world in which a camera became the picket's main weapon of intimidation poses great difficulties for the police and the law, and makes it all the more important that the unions' own disciplines also be directed to members who act contrary to agreements and directives. Changes in the law have a part to play but what is needed is less a change in the law than a change in the practice. Employers, government, the police, have become so afraid of 'confrontation' or 'provocation' at the local level that they have allowed practices and attitudes to industrial disputes slowly to shift. It will not be easy to push the tide back and change the attitudes and practices but it must be done.

Taxation and Supplementary Benefits for Strikers

Another instrument which might be used to help shift the balance of forces in the labour market is to make it financially more painful to strike by taxing short-term supplementary benefits (as are long-term benefits) and in the calculation of the supplementary benefits making an assumption that reasonable strike pay is being received.

The logic of this is clear enough. Short-term benefit should in equity be taxed like long-term. The question at issue is "is it worth doing now"? Is it worth it in terms of the large number of civil servants which, until PAYE is computerised, it would take to deduct tax? Is it worth it in terms of the number of workers it will deter? The evidence is that when a strike is called most strikers do not anticipate a long strike, and most (over three-quarters) do not in the event claim supplementary benefit but make do inside the total family budget and by being late with rent, rates, hire-purchase, etc.

Industrial Democracy

It is sometimes argued that industrial democracy or profit sharing would make trades unionists more responsible in their collective bargaining. This must remain an open question and a long-term one. At the moment profits in British industry are so low in relation to the wages bill that an offer to share in them would in the short run be very small compensation for a low wage claim. Industrial democracy of the "workers on the board" type seems to excite little interest. Something on the scale of the individual plant and office to which the worker can relate (the workers' council) might be more promising - at least the German experience would suggest so. But these are long-term questions and not something which the Government need make rapid moves on before the end of 1979.

All the above has been concerned with what might be done between now and the end of 1979 to begin improving the UK pay bargaining position across the board. But the public sector has its very particular problems and consideration of what to do there is no less urgent and no less difficult.

The Public Sector

a. Public Services: Comparability

The Chancellor recommends in his paper that the whole question of comparability (including the future of the PRU and the review bodies) should be examined with particular reference to its effect on inflation. This is clearly unexceptionable, though there is a much greater need for urgency in conducting any such review than his paper implies. But it should not be imagined that a review would reveal any easy alternative. There has been a good deal of heart searching by successive Governments over this question, and the present system has survived a fair amount of hostility. Some of the considerations are as follows:

- i. For certain groups (eg armed forces, civil service, National Health doctors and dentists) there is no market-determined rate. The Government, as paymaster, is not subject to the constraint of profitability. There is no measurable "output".
- ii. The Government's objective must be to pay rates adequate to maintain the services at the level they require, but certainly no more. This can be regarded as "fair" both to their employees and to the taxpayers.
- iii. There is much to be said for a system which seeks to attract a reasonable share of talent for the public sector by paying rates comparable to those which might be earned elsewhere - taking full account of conditions of service, job security, pension rights and so on. And it is very doubtful whether the system could be jettisoned without a degree of disruption which could be very damaging indeed.

- iv. But this still leaves very important questions to be answered. Are the comparisons sufficiently rigorous; and whether the machinery is sufficiently independent. It would also be legitimate to consider whether the price for this system should be no-strike agreements.
- v. What needs to be checked is (a) that comparability is genuine (job-for-job comparisons, wherever possible) and that the review bodies should not suffer from client-orientation. This is less likely to be a problem with a single Commission than with ad hoc enquiries, and (b) that the system allows for market forces - labour shortages or surpluses - to be taken into account. In many cases this will be reflected in the pay scales of private sector comparators - but not always, particularly if there is a conscious decision to reduce the public sector.
- vi. The question of coverage also needs to be examined. Should comparability be restricted to the groups traditionally covered in this way or is it sensible to offer it to the public services generally? Should the traditional "linkages" be sacrosanct. Should more allowance be made for regional variations in labour market conditions and private sector earnings.

b. Local Authorities/NHS

It would be unrealistic to assume that the Government will stand aside from pay bargaining by the local and health authorities. As the main Paymaster it will have to take a view on what can be afforded in determining cash limits. And it cannot ignore the likely repercussions on other groups.

All past experience suggests that where the Government has influence - as it does in these areas - it will want to use it to the full to reinforce its general stance on public services pay.

This may well be an argument for including these groups under the umbrella of disciplined comparability *faute de mieux*. But this needs further and rapid examination.

c. Nationalised Industries

The public trading sector presents perhaps the most difficult and undiscussed problems of all. Here, there is a great deal of industrial muscle capable of wreaking havoc in the rest of industry. There is a measurable output, but no free market. Most nationalised industries enjoy a degree of monopoly which cannot easily or rapidly be reduced. Many are highly capital intensive and a high pay settlement is much cheaper than suffering industrial action. The techniques for influencing pay bargaining are clear enough - financial targets, cash limits, some control over investment and prices. But there is still the problem of how much to build in for pay settlements, and on what principle. This needs considering in the context of the discussions on the future relations with nationalised industries which Sir Keith Joseph is leading.

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Conclusion

To sum up the Government's strategy in the pay area across the board should be to restore the conditions under which "responsible free collective bargaining" within a framework of fiscal and monetary discipline can result in low inflation and rising investment and employment. This means beginning to shift balance in the labour market. But when the next wage round begins the fiscal and monetary discipline can be in place but other background conditions will be adverse - especially the rate of inflation. What can be done by then to make people believe that the balance has begun to shift back. The areas to look for are: (i) the forum (ii) publicising the facts on objectives (iii) the legal prerogative of trades unions (iv) the law and practice of picketing. In the public sector the most urgent needs are for a study on (i) whether there is any alternative in practice, to comparability, or if we are stuck with comparability, how it can be improved (ii) how do we deal with nationalised industries?

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