Prime Minister

CSD tell me they can take the Chancellor's points on board in the drafting.

Agreed MT

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PRIME MINISTER

GOVERNMENT EVIDENCE TO THE CIVIL SERVICE PAY INQUIRY

(which you have already approved)

I have seen the revised draft synopsis of Government evidence attached to the minute of 20 July from Sir Robert Armstrong's office. I have also seen the Lord President's minute of 3 August.

2. Generally I think that this has come out well. But it does omit one point from the synopsis which I sent to Sir Robert, and this is the question of what the Government can afford to pay.

3. I appreciate that what can be afforded is at least to some extent a matter of judgement, rather than pure fact which a system of pay determination can at least purport to reflect in a mechanical way. But it is nevertheless a consideration that must in the nature of things pervade any discussion of the level of civil service pay. I am concerned that if it is not built into the new arrangements from the earliest stage we will find that it can only be brought to bear as an obtrusive long-stop when Government is obliged to decide, year by year, whether the results produced by some new - and allegedly "authoritative" - machinery are in fact compatible with economic reality. This is all too likely to be a recipe for resumed conflict: we want a method that works, not one that we regularly have to override.

4. I suggest that we should reflect this in the evidence by proposing that the new arrangements should provide for the Government to express a clear view at an early, formative stage on what it can afford. Of course, the system might not always accept that view; but the result that it produced would at least have been formulated in the light of the Government's position on this issue.

5. As minimum changes, I suggest the following new paragraph to follow the existing paragraph 2.5:

> '2.5A The system should enable the Government to register at a formative stage its judgement of what can be afforded.'

I think that it would also be helpful if these two paragraphs came earlier and more prominently in the synopsis.

6. My other points both arise on paragraph 1.2. I would replace the last part of the third sentence with 'to be consistent with the need to minimise inflationary pressures'. The system should not just avoid adding to inflation, but should also not get in the way of efforts to reduce it. Then in the fourth sentence I would add 'and finance' after 'labour market factors'.

7. On this basis I would be content for officials to proceed now with the drafting of the evidence in accordance with the synopsis.

8. I am copying this minute to the Lord President, the Secretary of State for Employment and Sir Robert Armstrong.

(G.H.)
6 August 1981