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W Whitmore 7c  
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Policy Unit

PRIME MINISTER

Top copy returned to J.H.

CIVIL SERVICE PAY

You are discussing this at Cabinet tomorrow. This note offers some lines of thought.

1. WHAT ARE OUR STARTING ASSUMPTIONS?

1.1 Is our objective now to "settle", as Christopher Soames seems to be suggesting? Or to achieve our 7% settlement, without compromising 1982 or long-term arrangements thereafter, even if the price is the continuation of the present disruption?

1.2 How long can we sit out the present level of disruption? For example, is it theoretically possible (provided we can sell it politically) to accept the costs of the present level of disruption almost indefinitely simply spelling out very clearly to the public that this is what we propose to do, and why we have to do it, and that they - the public as a whole - will, as ever, have to pick up the bill in increased taxes? As you know, we believe that as a general rule (ie except where life and limb are endangered) the only way to end the strike-culture is to let it happen - whatever "it" entails - concentrating all our efforts on just one thing - mobilising public opinion to win the battle for us. It is exactly like hijacking.

1.3 We are strongly against compromising on 1982 or thereafter in order to win on 7% now. We have a dispute on our hands and we'd better get out of it what we need to get.

2. WHAT ARE OUR NEGOTIATING OBJECTIVES?

2.1 What is the minimum we must win from the present dispute? For example:

- Not more than 7% this year.
- A smaller increase (eg earnings de-indexed by 5% - a totally different thing from full index-linking of the fatal type we know).
- Longer-term arrangements from 1983 onwards which cannot increase the Civil Service total wage bill, as a percentage of GDP, regardless of the level and trend of inflation.

SECRET

- 2.2 What would the wider implications be (knock-on effect, encouragement of militancy in Civil Service and other public service unions, damage to Government credibility, public outrage etc) of settling for "softer" objectives, especially for 1981 and 1982?

3. WINNING A PROLONGED DISPUTE

- 3.1 If we conclude that it is theoretically possible (as at Section 1.2 above) to sweat it out, if necessary for months, then effective communication of this fact should make it unnecessary to do so. The message would be something on the following lines:

"Here are all the basic facts: Civil Service have had pay increases of 50% in the last two years; 7% offered this year; for 1982, average earnings less X%, ie the same as the treatment of the much lower benefits paid to unemployed, most of whom are in the private sector. For 1983 onwards a new system; as proposed by an independent enquiry to be set up. Compare settlements now in the private sector. Total amount of labour-shedding in the Civil Service since the General Election; compare this with redundancies in the private sector. People with inflation-proofed pensions trying to demand more than the country can afford (which can only be met by higher taxes).

"This is why the PRU system was suspended - no intention of victimising civil servants, but look at the facts (as above) and recognise that these are difficult economic times for the country, for which many in the private sector are suffering much more severely. The public service has to bear its share of the hardship and public opinion is very strong on the matter.

"All we are asking is that the civil servants should share in the country's hardship. No-one is forcing them to stay in the Civil Service. They can if they want leave. If they argue that this is not easy because they can't get jobs elsewhere, then they are simply conceding our argument - that jobs are hard to get in the economy and that their jobs are better than many and more secure. And of course modest pay increases are the quickest route to bringing down unemployment.

SECRET

"This is what is at stake for the country (as in Section 2.2 above). We're all in the same boat together.

"We are prepared to sit this out. It will take a long time before it affects the Government's finances and thus the economy. But if it does so, we shall all simply have to pay that price. If we conceded an excessive pay claim, the damage to the economy would be immediate and we would have to increase taxes as follows. If the disruption drags on, it will not have much effect for X months. If commonsense has still not prevailed and it does drag on that far, then we shall increase taxes as follows, because we shall certainly not print money and thus raise inflation, nor will we borrow money and thus raise interest rates. The public as a whole will have to pay for the damage, because the disruption, like most strikes and disruption, is aimed in the end not at the Government - which has no money of its own - but at the public, ie you the taxpayer, from whom all the money eventually has to come, for everything Government spends.

"In due course, we may have to use stronger sanctions in order to make the cost of the disruption heavier to those who are causing it, and who could perfectly well call it off. But we shall certainly give fair and ample warning before imposing such sanctions."

- 3.2 Further comments could touch on, for example, the threat to the country's defence, in the context of a world situation in which Russia appears posed to invade Poland. All for an additional 8%.
- 3.3 All this could possibly be done in a Ministerial broadcast - ideally by Geoffrey. Its purpose is to warn people to prepare for prolonged disruption and inconvenience (and thus start to arouse their feelings against the Civil Service unions). Rather like a notice outside a construction project - "apologies for any inconvenience caused while we settle this dispute".
- 3.4 If this was a Ministerial broadcast, it would put Labour in the position of either condoning fiscal or monetary irresponsibility and supporting a Civil Service which is at present unpopular with the public; or broadly agreeing with us.

SECRET

3.5 Escalation

If we take this route, it may make sense to stiffen our position by warning that, after a certain date, any eventual settlement will no longer be fully backdated but will move forward with the length of the dispute. Other sanctions may be possible. Each day's delay under such an arrangement could cost the Civil Service membership about £2m in lost pay increase. Suitably publicised, this could increase uncertainty among union negotiators. They don't hold all the cards.

3.6 We stress that this line can only be taken if we are pretty certain that it is possible to sweat it out. Once we are certain, then the more strongly we put this line, the better. It is a matter of - shaping expectations, without bluffing.

4. OTHER COMMENTS

- 4.1 On balance, we favour Christopher Soames' suggestion of an independent enquiry. MISC 54 seems to be coming up with good ideas, but it could not play out time with 1983 in mind or have the authority on which to base radical changes. We don't want a permanent system before 1983 because 1982 will be another year of Transition - with the need for further fairly rough justice in order to settle below the going rate of inflation.
- 4.2 Great care will have to be taken with any independent enquiry to appoint the right members and give them the right terms of reference. In particular, they must be required to design a system which cannot, under any circumstances of inflationary acceleration or deceleration, end up inadvertently giving the Government a blank cheque commitment to increase the Civil Service's wage bill as a percentage of GDP.
- 4.3 It cannot be right to offer arbitration in 1981 when we have already agreed that arbitration is something we want to scrap.

I am sending a copy of this minute to Geoffrey.



JOHN HOSKYNS