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E(80) 27th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 23 JULY 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department
(Item 1 only)

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs
(Items 1 and 2 only)

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for
Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of
Lancaster

The Rt Hon Angus Maude MP
Paymaster General

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The Rt Hon Norman Fowler MP
Minister of Transport

Baroness Young
Minister of State, Department of
Education and Science

Mr Hamish Gray MP
Minister of State
Department of Energy

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. PUBLIC SECTOR PAY: COMPARABILITY AND CASH LIMITS

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 71) on the arrangements for determining public sector pay in the next year. They also had before them a note by the Secretaries (E(80) 75) listing the decisions already made on the public sector pay and those to be taken in the months ahead; and a minute of 18 July to the Prime Minister from Mr Hoskyns, the Head of the Prime Minister's Policy Unit, on public sector pay.

THE CHANCELLOR OF THE EXCHEQUER said that his provisional view was that the assumption for pay in the public sector cash limits for 1981-82 should be in single figures, subject to a reassessment in the autumn when firm decisions would have to be taken on the cash limits. The application of present systems of pay research and comparability would probably point to higher settlements than could be accommodated within cash limits fixed in this way. Ministers had already agreed that in these circumstances the cash limits would be overriding. It would probably be necessary to suspend the Civil Service Pay Agreement, which provided for settlements based on comparability, and the arrangements for arbitration. To allow for the required six months notice of such suspension it would be necessary to announce a decision to that effect no later than 1 October. He recommended that the announcement should be made before the Summer Recess in order to impress on the private sector the Government's determination that the public sector should set a good example in the coming round. It should be made clear that, while the present arrangements were to be suspended, the Government accepted that comparability should continue to be one (though not the only) factor in the determination of public service pay, but that the present arrangements for making comparisons were to be reviewed. He would arrange for officials to examine the options and to report in the early autumn. He considered that staging or delayed payment of increases should not be regarded as one of the options, because the deferment of the incidence of the full cost of increases in that way eased the problem of reconciling high percentage increases with cash limits in the first year only at the

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cost of adding to the problems of keeping within reasonable cash limits in future years. He recommended that the Government should announce its decisions that the Standing Commission on Pay Comparability should be wound up; at the same time as its proposals for suspending pay research in the Civil Service and that while the Review Bodies should continue, the Government should retain its freedom to take into account other considerations as well as their recommendations.

In discussion the following points were made -

a. The Lord President of the Council should be given time to negotiate further with the Civil Service unions on the revision of the current pay agreement. In doing so he would have to make clear that the cash limits would be overriding in determining Civil Service pay, and that pay research, even when the arrangements were improved, could be no more than a factor to be taken into account in arriving at the overall size of a pay increase, though it would continue to be of great importance in deciding upon the distribution of an increase within a group of classes or grades. This could well be unacceptable to the unions who would fear that the gap between the cash limit and the settlement which might be indicated by pay research would be unbridgeable. It would be premature, while these negotiations were continuing, to take a decision to suspend the Civil Service Pay Agreement.

b. If the Government could give some indication before the Recess of its thinking on public sector pay settlements, that would reassure the private sector, and could be helpful in influencing those negotiations, in both the private and public sectors, which would be starting shortly. The Government should therefore indicate that the assumption for pay in the cash limits for 1981-82 would be within the range of the target for money supply growth and in line with private sector expectations.

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c. It was important to avoid any impression that the Government might be setting a pay norm for the public sector. Otherwise some of the unions might seize on this as a basis for mounting a challenge to the Government's economic policies.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that cash limits should be overriding in the determination of public sector pay, and that the results of comparability studies would be only one of the factors which the Government would take into account. Firm decisions on the cash limits would not be taken before the autumn, and in the meantime it was important to retain as much flexibility and room for manoeuvre as possible. The Government would however make known publicly before the summer recess that it had in mind an assumption in single figures for pay increases in the public sector. It was important to avoid any impression that the Government were looking for a pay norm: within the cash limits there would be room for a wide variety of settlements, and the evidence from pay research would be helpful in deciding on the distribution. The Lord President of the Council should continue to negotiate with the Civil Service unions on the improvement of the pay research system, and in the meantime there would be no decision on the suspension of the Civil Service Pay Agreement. The Chancellor of the Exchequer should arrange for officials to consider further, on a contingency basis, the options for new and improved arrangements for comparability as set out in his memorandum (E(80) 71). The Committee agreed that before the summer recess she should announce that the Standing Commission on Pay Comparability would be wound up and that the Secretary of State for Employment should arrange for publication of the Commission's General Report,

The Committee -

1. Invited the Lord President of the Council to continue his negotiations with the Civil Service unions on the revision of the pay research system, taking account of the points made in discussion, and to report further in September.

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2. Invited the Chancellor of the Exchequer to arrange for officials of the Treasury, the Civil Service Department, the Department of Employment and the Central Policy Review Staff to consider further, on a contingency basis and in consultation with other Departments, as necessary, the options set out in paragraph 11 of E(80) 71, and to report in September.

3. Invited the Secretary of State for Employment to arrange for the publication, at a time to be agreed with the Prime Minister, of the General Report of the Standing Commission on Pay Comparability.

4. Took note that before the summer recess the Prime Minister would announce that the Standing Commission on Pay Comparability was to be wound up.

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2. THE REVIEW BODIES: MEMBERSHIP AND TERMS OF REFERENCE

The Committee considered a note by the Lord President of the Council (E(80)59) covering a note by officials on the possibility of changing the membership and terms of reference of the three Review Bodies: the Top Salaries Review Body (TSRB), the Armed Forces Pay Review Body (AFPRB), and the Doctors and Dentists Review Body (DDRB).

THE LORD PRESIDENT OF THE COUNCIL said that, while the members of the TSRB could be changed at any time, those of the other two bodies had fixed appointments and for the most part the terms of the present members continued until the end of 1981 or 1982. It was open to the Government to submit evidence to the Review Bodies about economic considerations, and this could be done with or without a change in the terms of reference. If the Government were to change the terms of reference, it could then be more difficult for it to reject recommendations on economic grounds which had already been taken into account under the terms of reference.

THE PRIME MINISTER, summing up a short discussion, said that the Committee agreed that the three Review Bodies should continue; that their terms of reference should not be changed; and that, with the exception of the AFPRB, the Government should continue to give no commitment to accepting their recommendations. Following the advice of Lord Boyle, the Chairman of the TSRB, senior Ministers should be ready in future to give evidence to the Review Bodies which they should take into account when reaching their conclusions. She would seek an opportunity to announce before the Recess that the Review Bodies would continue. In addition it would be necessary to consider the impact on the TSRB remit of the motion passed by the House of Commons on 21 July that the pay of Members of Parliament should in future be linked to that of a suitable grade in the public service. This would be for discussion in Cabinet the following day.

The Committee -

Took note, with approval, of the Prime Minister's summing up of their discussion.

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3. NURSES' PAY

The Committee considered a memorandum by the Secretary of State for Social Services (E(80) 74) on nurses' pay.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government was committed to finding a more satisfactory method of settling nurses' pay, which would protect the nurses against relative pay erosion and provide for a satisfactory pay base. There were two main possibilities which he wished to examine further. First, direct analogues could be identified for one or two specific nursing grades in order to establish some fixed points in the pay structure and a pattern within which the pay for the remaining grades could be negotiated. Secondly, a weighted average rate of increase might be established on the basis of the rate of pay movements, in a range of other appropriate jobs, with the total resulting sum distributed between the different nursing grades following negotiations. His own preference was for the second course. Either might also be applied to the professions supplementary to medicine. If the Committee agreed, he would pursue these options further but without commitment until he could put firm proposals to colleagues for approval. In the meantime he wished to make a public statement which would confirm that the Government were examining this question and that there would be consultations on the options.

In discussion it was suggested that, while cash limits would have to be overriding, there might well be a case for extending relatively more favourable treatment within the cash limit for the National Health Service to those groups, such as the nurses, who were not prepared to take strike action. As a general rule, care should be taken, however, not to fall into the trap of offering favourable pay settlements to unions who might not in practice be able to restrain their members from strikes.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the Secretary of State for Social Services should pursue the options further, though without any commitment. He should do so on the assumption that the cash limit would be overriding.

The Committee -

Invited the Secretary of State for Social Services -

- a. To consult on the options in paragraph 5 (b) and (c) of E(80) 74 and to report further with recommendations.
- b. To announce, without any commitment to the outcome, that he would be consulting on the options for introducing new arrangements for the determination of nurses' pay.

4. INFLUENCING NATIONAL PAY BEHAVIOUR

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 66) on the basis for a campaign of public education to influence national pay behaviour.

THE CHANCELLOR OF THE EXCHEQUER said that the Government needed to mount a campaign of public education to bring home to public opinion the economic realities as they affected pay bargaining. Figures should be used illustratively to point out the implications for the economy, and for unemployment in particular, of varying assumptions. Ministers should show the relationship between unemployment and the ratio of average earnings to the money supply, the relevance of labour costs to our international competitive position; and give international comparisons of the relationship between earnings and prices, in order to illustrate the need to break the link between pay expectations in the United Kingdom and the Retail Price Index (RPI).

In discussion the following points were made -

- a. It was likely that settlements in the private sector would be generally constrained by the current economic situation. While it was right for Ministers to bring out the link between unemployment and pay, care should be taken not to provoke the private sector unions while negotiations were in train. The Government should reserve its criticism for those private sector settlements which turned out to be too high.
- b. In the public sector the unions were likely to concentrate their attacks on the cash limits. Ministers should endeavour to dispel the popular illusion that there was a bottomless purse for financing public sector pay.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed with the general approach proposed by the Chancellor of the Exchequer. Ministers should advise the Paymaster General, and her Press Secretary, of their plans for speeches, so as to facilitate plans for a programme of Ministerial speeches on

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the economy. If possible they should make texts available in advance, so that arrangements could be made to secure the maximum publicity. It was necessary to be topical in order to catch the interest of the national and local Press. It would be important to keep up a flow of Ministerial speeches through the summer Recess.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Endorsed the general approach in E(80) 66.
3. Took note that the publicity unit under the Prime Minister's Press Secretary, and in consultation with the Chancellor of the Exchequer and the Paymaster General, would co-ordinate the preparation of publicity for a campaign of public education on pay questions, making use of the themes in E(80) 66.

Cabinet Office

25 July 1980

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