

Taken off agenda
for Cabinet 17/5

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Ref. A09571

PRIME MINISTER

The Way Forward on Pay

(C(79) 6)

BACKGROUND

In C(79) 6 Mr. Prior points out that the level of settlements is now around 13 per cent and rising and that nearly half the settlements for this round are yet to come. He says his recommendations are aimed at creating a climate for responsible collective bargaining through a variety of ways which he considers are compatible with the Government's general approach on management of the economy and pay. They relate not only to the rest of the current round but also the round starting this August. However some of his proposals, if they find favour, raise sensitive questions of handling and presentation which are likely to require further consideration and discussion.

HANDLING

2. You will wish to invite Mr. Prior to introduce his paper and then seek general comments from Sir Geoffrey Howe, Sir Keith Joseph and other colleagues.

3. Thereafter it would probably be most convenient to work through Mr. Prior's specific recommendations in paragraph 7 of his paper.

4. Paragraphs 7a., b. and c. build on the Manifesto Commitment to "open and informed discussion of the Government's economic objectives so that there is wider understanding of the consequences of unrealistic bargaining and industrial action"; and on the TUC agreement with the previous Administration on a target of reducing inflation by 1982 to below 5 per cent. They would require discussions with the CBI and the TUC but also a more broadly aimed educational effort. Mr. Prior specifically envisages "development of the economic forum approach". Clearly further thought needs to be given to the mechanics of any such operation. The nature of the forum? Who takes part? etc. How will the talks be presented publicly? Who should conduct them? And how should the proposed wider educative campaign be orchestrated? It would be desirable to clarify issues of this kind before any final commitment. The simplest

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solution would be to ask Mr. Prior and the Chancellor to put a more detailed paper on these matters to the Ministerial Committee on Economic Strategy (E) for circulation at an early meeting.

5. The recommendations in paragraph 7d. on monetary targets and cash limits are the subject of other items on the agenda and no separate conclusion is needed.

6. The recommendation in paragraph 7e. on the Comparability Commission falls to be considered separately in the meeting in the context of the joint paper on the Commission's future (C(79) 3). As to the continuation of Civil Service Pay Research and the Review Bodies you will want particularly the views of Lord Soames and the Secretaries of State for Social Services and Defence. But all of these Bodies have a long history and for the moment you may prefer to leave them in place and concentrate on detailed improvements. You could, if you wished, commission a review by officials of the mechanics of these bodies to provide a basis for later discussion (in E or E(EA)).

7. The recommendations in paragraph 7f. concern mechanics but also raise some important questions of principle. The previous Administration required the nationalised industries to clear all pay offers with them before they were made. But this was in the context of a tight pay policy norm. Your Manifesto stated that "in the great public corporations pay bargaining should be governed by what each can afford". But the public utilities are, by and large, able to set prices at whatever level is necessary to achieve profitability. The decisions taken by E on Monday to strengthen the investigative powers of the Office of Fair Trading and provide for it to make references to the Monopolies Commission as part of a more active competition policy will obviously help to impose a price - and hence a pay - discipline on the nationalised industries. But will it suffice? This again might provide the opportunity to commission a review by officials on the complex problems of seeking efficiency in the nationalised industries - with a future report to E or E(EA).

8. The question of repercussive effects raised by Mr. Prior in paragraph 7f. is also important. Apart from the more generalised concept of the "going rate" to which many trade unions have regard in their negotiations, there are also long established relativities e.g. between electricity, gas and water manuals (where

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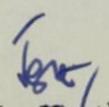
the unions overlap even if the employers don't). It is desirable that these are taken into account by management in making offers. You do not want to continue the interventionist approach of the last Administration but you may nevertheless want colleagues to consider whether there should be arrangements under which the Government is notified by the nationalised industries of major pay offers before they are made and to be given the chance to comment on them.

9. The recommendation in paragraph 7g. (that the Department of Employment should monitor private sector settlements on a voluntary basis and co-ordinate information for Ministers on the pay situation) is sensible and would provide Ministers with a guide not only to what was happening and pay settlements generally but also important settlements ahead. The previous Administration received a monthly report and Mr. Prior might be asked to continue this in less detailed form and to circulate it to the Ministerial Sub-Committee (E(EA)), of the Ministerial Committee on Economic Strategy.

CONCLUSIONS

10. You will want to record the Cabinet's conclusions in each of the recommendations set out in paragraph 7 of C(79) 6; and, subject to the discussion (especially on (b) and (d) below) to commission -

- (a) A joint paper from Mr. Prior and Sir Geoffrey Howe for consideration by E amplifying the proposal for early talks with the TUC and CBI to influence the pay climate; and the options for other long term steps which might be taken to the same end.
- (b) A report by officials (to E or E(EA)) on the scope for improvement in the present arrangements for determining Civil Service Pay through the Pay Research Unit and the pay of doctors and dentists, the armed forces, and top salary groups through the Review Body system.
- (c) A paper from Sir Geoffrey Howe for consideration in E (or E(EA)) on arrangements for enabling the Government to comment on pay offers in the nationalised industries before they are made.
- (d) A monthly report from Mr. Prior to E(EA) on pay settlements.


(John Hunt)

16th May, 1979