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PRIME MINISTERPay in the Coming Year
(E(81) 66)

BACKGROUND

This paper was part of the background for the general economic discussion at Cabinet on 17th June, but was not separately discussed then. At that meeting the Cabinet instructed the CPRS to examine what action should be taken to achieve the Government's objectives for pay settlements in the public and private sectors. Their report is likely to be available to Ministers when they return from the summer holidays. There is no necessary contradiction between the Chancellor's present paper and the study commissioned from the CPRS but, apart from coming to a view on the Chancellor's procedural conclusions, E Committee may like to use the present occasion for a general discussion on pay matters which the CPRS can take into account in their further work.

- Objective*
2. On the Chancellor's paper as such there is likely to be no argument about his broad conclusion that lower pay settlements in the next round are a highly desirable objective. The issues are those of tactics and procedure.
- Tactics Procedure*
3. Some of your colleagues may argue that, however desirable, the Chancellor's objective of settlements in the next pay round "in low single figures" is unrealistic. Employees will be feeling the pinch from the cut in real wages this year, the recession will be bottoming out and (with the fall in the exchange rate) inflationary pressures may be higher than earlier expected. Moreover, the miners' settlement this year comes near the beginning of the pay round and, coupled with a high settlement for the police (if the present indexing arrangements are not changed), is likely to get the pay bargaining season off to a bad start. This year's relatively low settlements in the public services may store up trouble for next year, when large numbers of employees in the local authorities, the National Health Service and the Civil Service, will be trying to "catch up". None of this means that it is wrong to try to achieve the Chancellor's objective: it must mean that the task will get progressively harder.

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4. On tactics it is clearly right to try to talk down expectations. But the pressures may be more acute than this year, especially in the public sector. Tough cash limits may be in order for local authorities where the strain can be taken by the rates and further cuts in services (and where arbitration is available to the unions). But the Civil Service unions will be banking on the Government's promise to enter into negotiations with them in 1982 without predetermined cash limits; and the nurses may well be seeking to cash in on the more generalised promises they have been given about not falling behind.

5. As to procedure the Chancellor makes two suggestions - that there should be a plan for handling public service pay negotiations in the next round, including the timing and nature of statements about cash limits, to be handled by the Ministerial Sub-Committee on Public Service Pay (E(PSP)) which he chairs; and that there should be a review by officials of the prospects for pay settlements in the nationalised industries and the means available for implementing them. The Chancellor suggests that this last task might be carried out by the existing Official Committee on Nationalised Industry Policy (NIP) which meets under Treasury chairmanship. The first proposal is acceptable as a means of getting the work done, though you would no doubt wish the Chancellor's Committee to report to E before decisions are taken. The second suggestion is consistent with your earlier view that nationalised industry pay matters should not be dealt with in the Chancellor's Committee (E(PSP)) (or in its supporting Official Committee - PSP(O)) in order to avoid the appearance of establishing a public sector pay policy. But it is untidy to have two Official Committees operating in the same general area - PSP(O) for the public services and NIP for the nationalised industries - and it is for consideration whether nationalised industry pay matters should after all be brought within the remit of the Chancellor's Committee - E(PSP). However this matter is handled, you will want this work also to be reported to E before decisions are taken.

HANDLING

6. You will want to remind colleagues at the outset that the CPRS study is now under way and is likely to be available in September. The discussion might therefore most fruitfully be regarded as a first 'tour d'horizon' with

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definitive discussion reserved until after the Recess - when it could perhaps usefully be combined with consideration of any further work commissioned by the present meeting. You might then invite the Chancellor of the Exchequer to speak to his paper, followed by the Secretary of State for Employment, the Lord President of the Council and other colleagues at will. You may also want to ask Mr. Ibbs about how he sees the CPRS study group (he recently sent you a minute on this).

7. In addition you could use the occasion to hear progress reports on the Civil Service dispute from both the Lord President and the Chancellor, though it would be as well to separate this out from the general discussion.

CONCLUSIONS

8. Subject to discussion, the only necessary conclusion may be to ask the Committee to note that you will be considering further whether, and if so how, reports should be prepared on pay in the public services and the nationalised industries for consideration by colleagues after the summer break. The Committee may also want to give a general blessing to the Chancellor's proposal that a publicity campaign should be prepared and put in hand. If so, he might be invited to co-ordinate this work with the Chancellor of the Duchy of Lancaster.

- L. Pres -

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RA

Robert Armstrong

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L.A. Sec.

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Productivity

Unit. Public Cost

D.E. ✓
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1st July, 1981

Scottish Sec. ← Tactics →

Explanation
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