

PRIME MINISTER

cc Mr Mount

THE MEGAW REPORT

You and the Chancellor have ^{no RU} agreed to have a word tomorrow night about whether or not we should go for a Megaw-type pay system for the Civil Service. The Treasury is generally in favour of it, and I would judge it likely that the Chancellor's Committee - MISC 83 - will endorse it at its meeting on 21 October, unless you and he agree otherwise beforehand.

You may want to tell the Chancellor that you have serious doubts about these two fundamental features of what Megaw proposes:

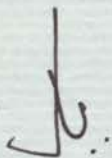
(i) The fixing of a lower limit for each year's pay settlement. this would be done independently of Government; it would be determined by comparability; and it would be absolutely binding, with no possibility of override. The Government's criteria of affordability and market factors come into play only in deciding where between the lower and upper limits the settlement will lie.

(ii) The four yearly "total remuneration survey", which would display publicly any accumulated divergence from comparable private sector pay levels, and require the Government to make an appropriate adjustment over time. We think this is even more objectionable than the arrangement for the annual settlement, because it would generate wide expectation of Clegg-type catching up settlements.

The Chancellor will be briefed to argue that the Megaw system is workable, and that as long as inflation is kept under control the scope for disputes is limited. Ministers have said they want an "ordered and agreed" system, and this is the best one available. These arguments deserve to be taken seriously, particularly if it is thought desirable to minimise the chances of industrial action. But we think that the price of that orderly system is too

high: it means the abandonment of our effort to keep civil service pay within the limits of what Ministers decide can be afforded, and of the principle that pay should be determined by the market for labour. And it would rapidly spread - Mr Fowler is already proposing, in a paper for the Ministerial Committee on Public Service Pay, a Megaw-type system for the nurses.

I know that the Chancellor will have other, and pressing, matters to raise with you tomorrow. So if, following the discussion, your doubts about Megaw remain, it may be best to ask Michael Scholar to arrange a further meeting - perhaps with one or two officials, such as Peter Le Cheminant, present - to agree the line for the Chancellor to take in MISC 83. This is a very important decision indeed for the handling of public service pay, and there are also difficult tactical issues in handling the unions.



12 October 1982