

*Yat End
Vc JV*



*Prime Minister (2)
Depressing reading*

NOTE OF A MEETING HELD IN NO.11 ON MONDAY 29 MARCH 1982

MCS 30/3

Present:

Chancellor of the Exchequer
Mr Ryrie

Sir Robert Marshall, Chairman - Nationalised Industries
Chairman's Group

NATIONALISED INDUSTRY BOARD MEMBERS PAY

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Sir Robert Marshall said that before his retirement as Chairman of the NICG at the end of the month he wished to impress again on the Chancellor the very strong feelings among nationalised industry Chairmen and Board members on the subject of pay. Many of the Chairmen were now receiving between half and one third of the remuneration of those in comparable jobs; and yet because of the degree of involvement and interference by Government, this task was in many ways more difficult and the industries harder to manage. It was difficult to recruit and obtain people of the right quality, and he believed it now behove Government to find a way through the impasse. Following the last meeting with Ministers on this issue, he had discussed the question with Mr Ian McGregor, and had then engaged consultants of Mr McGregor's choosing to consider ways of introducing a system for relating pay to performance. After those meetings, the consultants had concluded that they could not take on the task until the basic salaries had been put onto a more reasonable basis. This was because they considered that merit pay should be a reward for performance and effort over and above the normal, and that it must be applied to basic pay levels which themselves represented the proper rate for the job.

2. The Chancellor commented that this was a most disappointing conclusion, and he hoped it could be reconsidered. It was inevitable that there should be Government involvement and interference in the industries, given their monopolistic position and importance in the economy. So far as pay was concerned, part of the problem was that the

/industries were



industries were rightly perceived to be in many respects inefficient and performing badly. A constant plea of hard-pressed industrialists in the private sector was for something to be done to get the crippling burden of nationalised industry - and local authority - charges and prices off their back, particularly as they had done so much to put their own house in order. In these circumstances it was presentationally and politically difficult for the Government to find a way through on pay unless it was related to performance.

3. Mr Ryrie added that he doubted if the consultants had thought sufficiently constructively or originally, and he felt they had approached the problems too much as they would have done in the private sector. He suggested that the question should be re-examined urgently, with a real determination to find a way of linking pay increases to performance.

4. Sir Robert Marshall said he would take a further look at the problem, though he thought it had to be faced by Government that present salaries were so out of line that something had to be done urgently to raise the base before performance linking could be introduced. He did not believe many private sector industrialists with any knowledge of the realities would agree that there were massive inefficiencies in the nationalised industries. This brought him onto his second point; the way the Government appeared to view the industries, and its failure to defend them when attacked, was damaging to morale and to relations between Government and the industries. Overall, earnings in the nationalised industries had not increased greatly out of line with those in manufacturing industry; in 1980/81 the difference had been only .7 per cent. It was nonsense to say management was in the pockets of the unions. The Government was more likely to achieve the sort of performance it was looking for by recognising the important part the industries played in the economy and giving management its backing, and making clear it did not despise or denigrate those who worked in the industries.



5. The Chancellor said there was no question of the Government despising or denigrating the industries, and he fully recognised the importance of morale. But in many respects the performance of the industries had been disappointing, and attention had to be drawn to this in order to put it right. He drew attention, as an important example, to the remarks Sir George Jefferson had addressed to employees and unions on the serious inefficiencies and shortcomings within British Telecom. In conclusion, he thanked Sir Robert Marshall for coming, and hoped he would look again at the difficult but important question of relating pay more closely to performance.

MS
P S JENKINS
30 March 1982

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