

Prime Minister

SECRET

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3 November 1982

Policy Unit

not Health 10

PRIME MINISTER

The nurses review body point

is now water under the bridge. Agree to it?

CABINET, 4 NOVEMBER: INDUSTRIAL RELATIONS: PAY

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Mr Fowler's proposals on nurses' pay, the miners' ballot result, and the decisions needed on the Megaw report raise far-reaching and fundamental issues about the Government's approach to pay and industrial relations. We see a clear risk that decisions are going to be taken which will set in concrete existing assumptions and expectations about pay. These run counter to what is needed to increase employment.

The Industrial Relations Background

We have achieved a significant and probably permanent shift in the balance of power, towards employers and away from unions. The unions have declining membership; increasing financial difficulties; and no role in Government. The three constituent elements of the triple alliance have each in turn been defeated - the steel workers after a long and fruitless strike in the first half of 1980, the railway workers after two strikes earlier this year, and the miners' executive has twice running been contradicted by the membership. Public service unions are even less effective: whatever the direct costs of the civil service strike of 1981, one clear benefit is that the civil service unions will be most reluctant to stage a repeat performance; and the health service unions show every sign of having no idea how to keep up the momentum of their industrial action. In the private sector, there have been few serious disputes in the lifetime of this Government, because the consequences in lost jobs are all too clear.

Now is the time, therefore, to follow up this advantage on all fronts: to give not an inch to those unions, such as NUPE, whose backs are to the wall; and to drive the hardest possible bargain with those, such as the water workers, who still have disruptive potential.

The Longer Term

And now is the time to think of the longer term, and the next Parliament, during which we must get away from automatic annual pay increases, if we are to get our unit labour costs down to those of our competitors. We must prepare the ground for low multi-year settlements; for the end of the concept of the pay round; for greater regional pay differences; and, above all, for any pay increases to be linked to performance. The Government will be giving up all hope of taking a lead in these developments if it goes on putting more and more of public sector pay into the hands of arbitrators, review bodies, and Megaw-type systems. Affordability and market factors, the corner stones of our policy, will disappear from sight, to be replaced by an ever more pervasive, and ever less realistic, going rate.

Present Issues

Against that background it is clear to us that to offer the nurses a review body is unnecessary and undesirable. It is unnecessary because it is the unions, not the Government, who need a way out of the dispute, and because there are other and less damaging ways of meeting the Government's commitment to the nurses (these were covered in John Vereker's earlier note, which you have seen). It is undesirable because it takes a very large number of public servants out of market-determined pay, and almost certainly sets a norm for the whole NHS.

Structuring the pay offer so as to provide 12.3% from August 1982 to March 1984, which Mr Fowler will propose, is also undesirable. He has authority to offer 7½% for this year and 4½% for next and it is far better to stick to those, defensible, figures than to put over 12% into circulation. And even if a Review Body/12.3% deal were to prove acceptable to the nurses, we still continue to doubt whether settling with the nurses makes it easier to settle with the TUC affiliates. It is not the nurses who are on strike.

Megaw will no doubt come to Cabinet separately. But it hangs like a shadow over all discussions of public service pay. The Chancellor's Committee, MISC 83, is recommending it. If we have to have it, it must be made consistent with our longer term objectives by the inclusion of satisfactory safeguards, including provision for temporary suspension at reasonably short notice.

Finally, the outcome of the ballot on miners' pay raises several questions about the future handling of coal issues. The most immediate is the point on which we understand Mr Lawson will be writing round today: how to get into circulation the fact that the pay offer amounts to only 6½% on average earnings. There are still dangers with the miners, especially over pit closures, and we should avoid allowing Scargill to accuse the NCB of bad faith. Bernard thinks it would be right to go as far as arranging a written PQ, the answer to which would contain the right figure, and drawing the media's attention to it. We agree.

I am sending a copy of this note to the Chancellor of the Exchequer.

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FERDINAND MOUNT