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(81) 23rd Meeting

COPY NO 58

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 2 JULY 1981 at 10.45 am

PRESENT

The Rt Hon Margaret Thatcher  
Prime Minister

The Rt Hon William Whitelaw MP  
Secretary of State for the  
Home Department

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

The Rt Hon Lord Soames  
Lord President of the Council

The Rt Hon James Prior MP  
Secretary of State for Employment

The Rt Hon John Nott MP  
Secretary of State for Defence

The Rt Hon Peter Walker MP  
Minister of Agriculture,  
Fisheries and Food

The Rt Hon Michael Heseltine MP  
Secretary of State for the  
Environment

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Francis Pym MP  
Chancellor of the Duchy of Lancaster  
and Paymaster General

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales  
(Item 1)

The Rt Hon Patrick Jenkin MP  
Secretary of State for Social  
Services

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The Rt Hon Mark Carlisle QC MP  
Secretary of State for Education  
and Science  
(Item 1)

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury  
(Item 1)

The Rt Hon Norman Fowler MP  
Secretary of State for Transport

Mr J R Ibbs  
Central Policy Review Staff

## SECRETARIAT

Sir Robert Armstrong  
Mr P Le Cheminant  
Mr D J L Moore

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## 1. PAY IN THE COMING YEAR

The Committee considered a Memorandum by the Chancellor of the Exchequer (B(81) 66) about pay in the coming year.

THE CHANCELLOR OF THE EXCHEQUER said that when the Cabinet had discussed the economic outlook at its meeting on 17 June (C(81) 23rd Conclusions) it had been generally accepted that the case for seeking further moderation in pay settlements was overwhelming. The loss of international competitiveness in manufacturing industry in the past three years, as a result of movements in the exchange rate and of relative unit costs, had been of the order of 60 per cent. If a significant part of this loss of competitiveness were to be recovered, the inescapable conclusion was that pay increases would for some time need to be held well below the rate of price inflation.

Good progress had been made in the past 12 months but more was needed. Indeed a strong case could be made for the proposition that the economy could not, in the near future, afford any general increase in the level of pay settlements at all, apart perhaps from those earned by increased productivity. If such an outcome were to be regarded as unrealistic, it was nevertheless of the highest importance that the level of pay settlements should be reduced as far as possible. It would not be fruitful to engage in a numbers game, but considerable Ministerial effort needed to be put into propagating the view that the economic situation required increases in pay to be held as far as possible in low single figures. The Confederation of British Industry (CBI) were adopting a public stance on these lines. In addition to engaging in an educational process, the Government also needed to pay particular attention to pay in the public services and in the nationalised industries where it had a more direct influence than over settlements in the private sector. He proposed that in due course a plan should be prepared for handling the main public service pay negotiations. It would be premature to begin this work yet because the main public service settlements were not due until 1982, although critical negotiations on police pay were due shortly and needed special consideration. All of these matters could most readily be handled through the Ministerial Sub-Committee on Public Service Pay. As for pay in the nationalised industries he would, together with a few colleagues, be meeting the nationalised industries Chairmen's Group shortly and the

discussion would embrace the pay outlook. At the right moment it would also be helpful if a plan were prepared for handling critical nationalised industry pay issues as they arose in the next nine months. This work might be entrusted in the first instance to the Official Committee on Nationalised Industry Policy (NIP).

In discussion the following main points were made -

a. The Central Policy Review Staff (CPRS) had already been commissioned to produce a report on the action which might be taken to achieve the Government's objectives for pay settlements in the public and private sectors. As at present envisaged this issue would concentrate on the private sector, but the public sector element could readily be expanded. A report should be ready in September.

b. In previous years it had been the practice to give local authorities in August figures for the volumes of expenditure by then approved by the Government for the following year. The factors converting volume to cash were then decided later in the year. With the change to planning on a cash basis it would now be necessary to give local authorities cash figures at a much earlier stage, if they were to be enabled to plan sensibly their expenditure in 1982-83. Time was short and urgent decisions on public expenditure were needed.

c. It had been argued at the Cabinet's discussion on 17 June that the public might more readily accept the need for a tough pay regime if it could be shown that the money saved would be spent on job-creating capital projects. This approach should be looked at again when the Cabinet began its discussion of public expenditure programmes later in the month. It had to be recognised however that the degree of connection between pay restraint and investment varied widely between different industries and employments. In some, eg British Rail, the connection would be immediately apparent to employees. In others, eg the National Health Service, the connection was much more remote.

d. The problem of police pay required careful handling. The Committee were informed how the Home Secretary proposed to handle them.

e. The Government faced a difficult year on public sector pay, and it was doubtful whether any present committee of Ministers could adequately handle the planning and tactical execution of the actions which might be needed. There was a case for new machinery. The Secretary of State for Scotland would let the Prime Minister have a personal memorandum outlining his ideas.

f. It was doubtful whether the institutional structure for pay bargaining and public discussion of pay issues adequately reflected the changed economic circumstances of the time. Thought should be given to further developing the role of the National Economic Development Council as a forum for wider discussion of these matters. It would also be desirable to consider further the problems thrown up by the need to accommodate backward-looking comparability eg by the Review Bodies with cyclical movements in the economy.

THE PRIME MINISTER summing up the discussion said that the Committee had had a useful general discussion bearing on the critical influence of movements in pay on the economic health of the country. There was no dispute that restraint in pay was a key element in reducing inflation and promoting growth. There was also no dispute that the Government's own actions on pay in the public services and more widely in the public sector would have a major influence on private sector attitudes. The Government could not preach what it did not practise. Some of the points which had emerged in discussion would be directly relevant to the Cabinet's consideration of public expenditure and related economic matters later in the month. Others would provide helpful guidance to the CPRS in the work they were undertaking on pay and which Ministers would consider in September. The Chancellor of the Exchequer's procedural recommendations in E(81) 66 could be further considered in September when the CPRS work was available. Meanwhile Ministers should use every opportunity to stress the importance of moderation in pay bargaining as a key condition for economic recovery. The Chancellor of the Exchequer should consider further, with the Ministers most closely concerned and the Chancellor of the Duchy of Lancaster, whether further guidance on pay themes could usefully be provided for use by Ministers generally.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Instructed the Central Policy Review Staff to be guided in their further work by the points made in their discussion.
3. Instructed the Central Policy Review Staff to bring forward the results of their work for consideration by Ministers in September.

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2. PAY OF NATIONALISED INDUSTRY BOARD MEMBERS  
Previous Reference: E(80) 16th Meeting

The Committee considered a Memorandum by the Lord President of the Council (51st 72) on the pay of Nationalised Industry Board Members (NIBMs).

THE LORD PRESIDENT OF THE COUNCIL recalled that in May 1980 the Committee had agreed that the Top Salaries Review Body should no longer be invited to advise on the pay of NIBMs, but that each sponsoring Minister should make proposals which, to ensure co-ordination of the overall approach, they would then put to him for approval. Following discussions with the nationalised industries, the Prime Minister had announced on 7 April 1981 that under the new, more flexible, arrangements which took effect from 1 April 1981, salary increases would be based on managerial and market considerations and not on traditional comparisons and ranking. The proposals now coming forward were for increases substantially higher than those offered in 1981 elsewhere in the public sector. As such, they would be very difficult to defend and he recommended that the guiding principle for fixing salaries in 1981 should be that increases for existing board members should fall in the range of 6 to 12 per cent according to the extent to which exceptional circumstances applied.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that sponsor Ministers should aim to keep increases for NIBMs to no higher than 6 or 7 per cent in 1981. They recognised that some exceptions might need to be made, but the sponsor Minister concerned would need to put forward for collective discussion and approval any proposals which he might wish to make for such higher increases.

The Committee -

1. Invited Ministers sponsoring nationalised industries -
  - i. With the agreement of the Lord President of the Council, to approve increases in the salaries of Nationalised Industry Board Members no higher than 6-7 per cent in 1981.
  - ii. In consultation with the Lord President of the Council, to put forward for collective discussion proposals for any increases higher than 6-7 per cent.

2. Invited the Secretary of State for Transport to be guided by the Prime Minister's summing up of their discussion\* in his further negotiations on the remuneration of the Chairman of British Rail.

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6 July 1981

\*Note: As the Committee's discussion involved personal details of the financial position of individuals it has been recorded separately and given a very restricted circulation.

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX  
E(81) 23rd Meeting Minutes, Item 2  
THURSDAY 2 JULY 1981 at 10.45 am

CONFIDENTIAL

2. PAY OF NATIONALISED INDUSTRY BOARD MEMBERS  
Previous Reference: E(80) 16th Meeting

The Committee considered a memorandum by the Lord President of the Council (E(81) 72) on the pay of Nationalised Industry Board Members (NIEMs).

THE LORD PRESIDENT OF THE COUNCIL recalled that in May 1980 the Committee had agreed that the Top Salaries Review Body (TSRB) should no longer be invited to advise on the pay of NIEMs, but that each sponsoring Minister should make proposals which, to ensure co-ordination of the overall approach, they would then put to him for approval. Following discussions with the nationalised industries, the Prime Minister had announced on 7 April 1981 that under the new, more flexible, arrangements which took effect from 1 April 1981, salary increases would be based on managerial and market considerations and not on traditional comparisons and ranking. The proposals now coming forward were for increases substantially higher than those offered in 1981 elsewhere in the public sector. As such, they would be very difficult to defend and he recommended that the guiding principle for fixing salaries in 1981 should be that increases for existing board members should fall in the range of 6 to 12 per cent according to the extent to which exceptional circumstances applied.

MR IBBS said that he agreed that increases of the order now being proposed would be very difficult to reconcile with the Government's general stance on public sector pay and with the objective of keeping increases low except when more was justified by improved performance. On the other hand, nationalised industry board salaries had to be sufficient to motivate, to retain and to attract people of the right calibre. One way out of this dilemma might be to limit any increase in basic salary to, say, 5 per cent but to negotiate a performance bonus sufficient to raise the total remuneration to the required level, perhaps to as much as 30 per cent in all, if certain clearly specified targets were achieved. Such arrangements were relatively common in America and there were consultants who could advise on schemes.

THE SECRETARY OF STATE FOR TRANSPORT said that in general he would be willing to accept that increases for the boards for which he was responsible should be in the 6-12 per cent range. This would be bitterly criticised by the boards, whose expectations had been roused by the introduction of the new arrangements, but, as the Prime Minister had made clear in her statement, it was necessary also to take account of the general economic climate in reaching decisions. In the longer term, there might be attractions in moving to a system on the lines of that suggested by Mr Ibbs, but this would not be practicable within the next year. He faced a particular problem over the re-appointment of Sir Peter Parker as Chairman of British Rail (BR) on the expiry of his present contract in September 1981. Sir Peter did not want to serve for a further 5 years but there was a strong case for re-appointing him for 2 years: he was generally supportive of the Government's policies for the nationalised industries, and loyal in sticking to agreements reached; his good relations with the rail unions were invaluable. To retain his services, the Secretary of State for Transport recommended that he should now offer Sir Peter Parker an increase in annual salary from £48,000 to £60,000; agreement that he could be allowed to accept the Chairmanship of 2 private sector firms; and a once-for-all lump sum pension benefit in the order of £15-20,000. This package was considerably less than that which Sir Peter had sought and, since there was no doubt that he could secure good appointments in the private sector, it was by no means certain that it would be acceptable to him.

In discussion the following points were made -

a. It was generally agreed that, if possible, Sir Peter Parker should be re-appointed as Chairman of BR. There would, however, be strong criticism of any arrangement which allowed him both substantial increases in his salary from BR and income from the Chairmanship of 2 major outside companies. This would be seen as relegating the Chairmanship of BR to a part-time job at a time when the industry faced acute difficulties. It would be better to negotiate a salary increase at a level, if necessary, higher than £60,000 and to allow him to take on 2 outside directorships but not Chairmanships. Any improved pension arrangements for Sir Peter would become public knowledge and care should be taken to ensure that they were defensible.

b. Exceptional treatment, on the lines of that now being discussed for Sir Peter Parker, could be justified for a key appointment or re-appointment to a nationalised industry board. The initial criticism of the terms of appointment in 1980 of the present Chairman of the British Steel Corporation had died away surprisingly quickly, and both the general public and the unions appeared to recognise that generous terms were worth paying for a Chairman who could bring about much needed improvements in an industry. It was, however, a different matter for some other chairmen who were not coming up for re-appointment and for most ordinary board members. For them it would be difficult to defend increases in 1981 any higher than the 6-7 per cent which had been awarded, within the relevant cash limits, for doctors and dentists and for those groups still covered by the TSRB.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that sponsor Ministers should aim to keep increases for Nationalised Industry Board Members to no higher than 6 or 7 per cent in 1981. They recognised that some exceptions might need to be made, but the sponsor Minister concerned would need to put forward for collective discussion and approval any proposals which he might wish to make for such higher increases. The Committee agreed that the Secretary of State for Transport should aim to negotiate a deal which would be sufficient to secure the re-appointment of Sir Peter Parker as Chairman of BR for 2 years from September 1981. It would be difficult to defend both a substantial increase in his salary as Chairman of BR and approval to his

taking up the Chairmanship of 2 major private sector firms; the Secretary of State for Transport should seek to persuade Sir Peter to accept no more than 2 outside directorships, which would be less demanding of his time, in return, if necessary, for an increase in his BR salary to somewhat higher than £60,000. The Committee were particularly concerned that any improvements in the pension arrangements for Sir Peter should be defensible; the Secretary of State for Transport should approve pension increases related only to Sir Peter Parker's service with BR. The Secretary of State for Transport should report further to her, and to the Lord President of the Council, on the outcome of their negotiations.

The Committee -

1. Invited Ministers sponsoring nationalised industries -

i. With the agreement of the Lord President of the Council, to approve increases in the salaries of Nationalised Industry Board Members no higher than 6-7 per cent in 1981.

ii. In consultation with the Lord President of the Council, to put forward for collective discussion proposals for any increases higher than 6-7 per cent.

2. Invited the Secretary of State for Transport to be guided by the Prime Minister's summing up of their discussion in his further negotiations on the remuneration of the Chairman of British Rail.

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6 July 1981

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E(81)23rd Meeting

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held  
at No 10 Downing Street,  
on Thursday 2 July, at 10:45am

CIVIL SERVICE PAY DISPUTE

Previous Reference: E(81)20th Meeting.

THE LORD PRESIDENT OF THE COUNCIL said that the Council of Civil Service Unions would meet later in the day to decide whether to continue with selective industrial action or to move to an all out strike. Much would turn on their judgement of the extent to which their members were responding to appeals for financial help for strike funds; the response appeared to be varying between the unions. While the union leaders probably wanted to stop the industrial action as soon as possible, it was difficult for them to do so without any further concession by the Government. The announcement of an independent inquiry into non-industrial civil service pay, under Sir John Megaw, was of limited help to them since their main objectives were now directed to getting more than 7 per cent in 1981 and to securing more assurances from the Government on how the 1982 pay settlement would be reached. In his judgement, the industrial action would continue for some time. As soon as the unions had decided on their next steps, Ministers should decide what further action the Government should take.

In discussion the following were the main points made:

- (i) If the industrial action were to continue it would be necessary to consider withdrawing from all staff the offer to backdate

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the 7 per cent increase to 1 April 1981. Some Ministers felt strongly, however, that it would be wrong to penalise those staff who had stood loyally by the Government throughout the dispute, had worked long hours, and were now coming near the end of their tether in dealing with the very difficult problems of management and of workload which were arising. Bitterness was already increasing among many staff of moderate opinion and, if they were to be penalised, the Government would be faced with a long term problem of dealing with disaffected employees. It was, moreover, unlikely that amendment of the operative pay date would bring the present industrial action to an end. A better course would be to reconsider the proposals put forward by the Law Officers for differentiating between those continuing to take industrial action and those not; although the Committee had found in its earlier discussions that there were severe practical problems in implementing such a scheme. It would also be important, before deciding on further action, to take the views of senior management in Departments.

(ii) The damage being caused by the industrial action was increasing. For the most part, tax receipts would be recovered but some would be permanently lost, and the timing of the recovery of the receipts and the effect on interest rates was uncertain. The interruption of payments in the agriculture sector was highly damaging. There was no sign of the air traffic controllers reducing their action, which had already cost British Airways about £40 million, and it did not seem that effective action could be taken against them under industrial relations legislation. The dispute was disrupting the defence nuclear programme.

(iii) It would be a mistake, however, to draw public attention to the damage being caused by the dispute; to do so would give succour to the unions and boost their morale. The right course was to continue to stress the link between pay and jobs, and to bring out that the action would lead to unemployment.

THE PRIME MINISTER, summing up the discussion, said that she would arrange for a small group of the Ministers directly concerned to consider further the next steps to be taken by the Government. In doing so they would take account of the strong advice of some Ministers against any general withdrawal of the present

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operative date for the pay increase, and they would consider further whether action could be taken selectively on the lines proposed by the Law Officers, although there were considerable doubts as to whether this was practicable. In the meantime, Ministers should continue to avoid magnifying the damage allegedly being caused by the dispute and to stress the fact that more pay meant less jobs.

THE COMMITTEE -

Took note, that the Prime Minister would arrange for a group of the Ministers most directly concerned to consider, as soon as possible after the meeting of the Council of Civil Service Unions later that day, what further action the Government should take to bring the dispute to an end.

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