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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PAY IN THE PUBLIC TRADING SECTOR

Note by the Chancellor of the Exchequer

My paper E(82)3 discusses the prospects for the coming year generally. As always, the nationalised industries are a special problem for familiar reasons. We need to consider again how to handle pay in this sector in the coming year.

The Past Year

2. Most of the 1981-82 settlements are now clear, save British Rail and a few smaller ones like London Transport and British Waterways Board. The table at Annex lists the main settlements, broadly in the order in which they were reached. The average effect of earnings of all these settlements is estimated by the Department of Employment at about 7½ per cent. But with drift, the total increase in earnings may turn out as much as 10 per cent over the past year. For comparison, the increase in earnings in the private sector may (on the basis of settlements so far) be slightly lower, and that in the public services about 7½ per cent.

Assessment

3. The most striking point about the earnings effects is that half of them fall between 7 and 8 per cent. The real predominance of this narrow range is in fact even greater - for example the three settlements for which no precise earnings estimate has been calculated all have additional features which probably put them too in the 7-8 per cent range. The overall picture is thus of virtually all settlements in that range, except British Airways and British Steel. Even at British Steel substantial increases may be taking place through local productivity deals.

4. It is clear that the upper end of the range envisaged when EFLs were set has not been significantly exceeded. This, and the fact that all settlements have been well below the year-on-year increase in the RPI (12 per cent last autumn 9½ per cent now), is not unsatisfactory. But failure to achieve the lower settlements, looked for in some industries may mean, much less satisfactorily, that financial and market (including labour market) considerations

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had less influence than the example of one or two conspicuous settlements early in the pay year - with the implication that if, another time round, such settlements were high they could do a great deal of damage across the sector as a whole.

Points for the Year Ahead

5. The above assessment suggests that the Government can exercise only limited influence especially beyond the early autumn as major negotiations get under way. I am sure that it has been right, and will remain so, to keep an "arm's-length" posture vis-a-vis particular negotiations and settlements; if we get too obviously drawn in, the outcome may be not merely political damage but sometimes more friction and worse settlements than otherwise. Given this, such influence as we have comes in two ways: from the financial framework or constraints imposed on particular enterprises, and from Ministerial pressure on Chairmen and senior management.

6. The particular financial aspects are for discussion in the IFR and as we come to set EFLs in the autumn. The leverage they give us for influencing pay varies widely between industries, with such factors as labour-intensiveness and monopoly power. EFLs are moreover the residuals between much larger sums, of diverse composition and in many instances the difference between a "bad" pay settlement and a "good" one is comparatively marginal in relation to the total business of an enterprise. Where this is so, we could impose a really sharp financial discipline on pay only by breaking away from the block-budget concept implicit in the EFL system; and this would merely damage other aspects of financial discipline. Nevertheless the setting of EFLs can in varying degree give us useful influence; and we should exploit it as firmly as we can, exploring in every case the pay assumption in industries' bids and wherever appropriate insisting on a lower EFL if the assumption is excessive.

7. As regards our influence by pressure on management, we can do three main things:

- (a) As I have suggested, we must be more explicit with Boards about objectives on pay as they impact on EFL's. In some instances there may have been genuine misunderstanding in the past year about what the Government was looking for.
- (b) We need to concentrate our influence on the strategic decisions made by the industries at the start of the pay year, well before negotiations begin. Once there is an impression of a going rate of pay increases in this sector (or more widely in the economy) and negotiations are taking place, we will find it difficult to change the broad management approach.
- (c) But even if we have only limited influence at the negotiating stage we should equip ourselves as well as possible

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to deal with unwelcome developments during the course of negotiation. We do not want to take over from the management the public responsibility for pay settlements. But we do need to ensure that there are clearly-agreed arrangements with each industry for keeping us informed of pay offers and changes in them. We should aim firmly at a minimum of 7 days notice (the guideline used, with only patchy success, in the past two years) while recognising that during negotiations it may be simply a question of best endeavours to keep us informed in a fast-changing situation. But we have every reason for expecting to receive adequate notice before initial offers are made, and to have the opportunity for sponsor Ministers to discuss with management the tactics they expect to follow.

8. Whatever we can do in these ways, the degree of our influence will continue to vary between different parts of the sector (for example between the nationalised industries and passenger transport executives). Nevertheless we should continue to monitor developments in the whole sector as we do now, with a comprehensive three-weekly report.

Industrial Action

9. Separate work has been done or is in hand on industrial action in key areas. The financial and management interest of particular industries may lead them to different conclusions on the desirability of facing industrial action from those which we would reach on a broader view. This underlines the need both for us to get to know early the strategic view particular industries are taking, and for adequate information during pay negotiations. The maximum possible advance warning is clearly very important if major industrial action is in prospect, especially where questions of special financial or other support from the Government might arise.

Conclusion

10. We must maintain in public our "arm's-length" relationship to settlements. But it is then all the more important to use our behind-the-scenes influence actively and robustly. Paragraphs 6-7 above note the need to exploit such leverage as the IFR and EFL provide. In addition, I propose the following:-

- (a) We should reach clear understanding with the nationalised industry Chairmen in the early autumn (or earlier if necessary) on objectives and broad strategy for pay in their industries in the year ahead. We should do this by discussion with them both collectively and between sponsor Ministers and individual Chairmen.
- (b) Clear understandings should also be established with each enterprise on the flow of information to be provided, based on getting at least 7 days notice of offers, especially initial ones.

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- (c) It would be useful to have an indication of the main particular sources of potential difficulty on public trading sector pay in the year ahead. I suggest that officials should conduct an early review of the position and let us have a brief assessment before the summer recess.

G.H.

H.M. Treasury

25 June 1982

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PUBLIC TRADING SECTOR PAY SETTLEMENTS, 1981-82

Group	Settlement date	Settlements implicit in EFL's		Actual settlements	
		Originally envisaged	Allowed for when set	Basic rates	Earnings
Coalmining (manuals and clericals)	1 November	n.a.	7	9.3	7.4
Water manuals and craftsmen	7 December	n.a.	n.a.	9.1	8.8
Municipal buses	4 January	n.a.	n.a.	6.6	7.8
UKAEA manuals	1 October	n.a.	n.a.	6.0	n.a.
British Airports Authority	1 January	n.a.	n.a.	6.0	n.a.
National Bus Company	1 March	7	7	6.6	7.5
British Shipbuilders	1 April	7	5	5.5	6.5
Post Office manuals	1 April	14	4-5	7.0	7.7
British Nuclear Fuels non-manuals	1 April	n.a.	n.a.	n.a.	7.5
British Telecoms	1 July	14	5½	6.8	n.a.
Gas Supply manuals	17 January	10½	5-8	7.5-8.0	7.9
Electricity manuals	17 March	9	8	n.a.	7.4
British Rail	20 April	8½	5½	5.0 offer, from September	
British Airways	1 January	11	n.a.	Increase deferred until Sept.	
British Steel	1 January	0	0	No national increase in 1982	