

PRIME MINISTER

CABINET: PUBLIC SERVICE PAY FACTOR

FLAG A The Chief Secretary's paper C(82)35 proposes a pay factor for the public services for the forthcoming pay round of 4 per cent; and that this decision should not be formally announced until late November or early December. You will know from our briefing for your dinner with the Chancellor on 3 August that we favour a lower pay factor. We also believe that it should be announced earlier, but that is a secondary issue.

The case for a 3 per cent pay factor

The main argument for a pay factor lower than 4 per cent is that 4 per cent or more would result in a rise in average earnings (after negotiation and wage drift) of at least 6 per cent, which would not be consistent with the fall in real wages that Ministers are agreed must be achieved if employment is to recover. The prospect for inflation has significantly improved since Cabinet provisionally agreed a 4 per cent target last summer, and that improvement ought to be reflected in our aspirations for the forthcoming pay round. A further, and strong, argument for less than 4 per cent is that it will become public knowledge sooner or later - probably sooner - and when it does it will be clear to all that the Government is not seeking further deceleration in public sector pay, because 4 per cent is the figure we chose last year.

In the summer we were inclined towards a 2 per cent pay factor, reflecting a serious determination on the part of the Government to bring down real wages. But we accept that, since then, the public sector unions have more effectively got their act together, and that the choice of such a low figure might enable them to rally considerable public support for common cause against the Government. We therefore believe that 3 per cent is the right figure; Alan Walters in particular endorses that.

/ The case

The case for announcement the figure soon

The Chief Secretary's case against an early announcement (ie. before the end of November) rests on the danger of provoking the unions, and particularly the Civil Service unions. But I do not believe that we have most to fear from that quarter. Our current pay difficulties are with the NHS; with the miners; with the water workers; and with the local authority manuals, who will set the tone for the public services who settle later in the round.

Holding back our announcement until the end of November would mean losing the opportunity to influence all of those negotiations.

The NHS in particular, who have been offered a deal which assumes 4 - 4½ per cent for next year, would realise what they stood to lose if they did not settle. The position of the unions representing both the miners and the water workers would surely be significantly weakened if they had to pursue their present claims against the background of a 3 per cent pay factor. And in the absence of an announcement to the contrary, the likelihood is that the local authority employers will base their negotiations on the assumption of 5 per cent, since that was the assumption for this year in last year's figures.

I do not pretend that this decision is absolutely clear-cut. An early announcement of a 3 per cent pay factor would carry some risk of a successful effort by the public service unions to discredit the Government's approach to pay, and could therefore result in a higher pay round than if we had chosen 4 per cent and been able to stick to it. But with the present rate of unemployment, the prospect of Royal Assent to the 1982 Employment Bill, and the preparations we have made for dealing with industrial action in the public sector, we think that on balance it would be right to go for 3 per cent and an early announcement.



24 September 1982