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CAB 128/72

SECRET

● MOST CONFIDENTIAL RECORD.

CC (81) 7TH CONCLUSIONS MINUTE 4.

THURS 19 FEBRUARY 1981.

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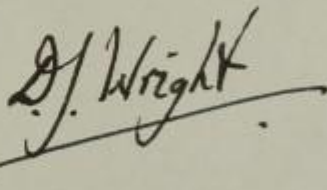
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Ref. A04311

MR. WHITMORE

Cabinet: 19th February

You will recall that no record was circulated of last Thursday's discussion of Industrial Affairs at Cabinet. We have now produced a Most
— Confidential Record and I enclose a copy. The other two copies will be kept in this office. I should be grateful if you could return your copy to me in due course.



D.J. WRIGHT

23rd February, 1981

SECRET

MOST CONFIDENTIAL RECORD
TO
CC(81) 7th CONCLUSIONS, MINUTE 4
Thursday, 19 February 1981

INDUSTRIAL
AFFAIRS

Coal

THE SECRETARY OF STATE FOR ENERGY said that the National Coal Board's (NCB) recent announcement of a programme of pit closures had been seized on by militants in the National Union of Mineworkers (NUM) as an excuse for confrontation with the Government. There had been much distortion and misrepresentation of the NCB proposals and consequently much fear and concern among ordinary mineworkers. Unofficial strikes had occurred and it had rapidly become apparent that a full-scale de facto national coal strike would have begun on the following Monday, 23 February, if steps had not been taken to defuse the situation. Consequently after consulting the Prime Minister and other senior colleagues he had taken part the previous evening in joint talks with the NCB and the three mining unions. His remit had been to make the minimum concessions necessary to avoid a national coal strike. In the event he had felt it necessary to make two statements. First that, while coal imports would in any case fall from $7\frac{1}{2}$ million tonnes in 1980 to $5\frac{1}{2}$ million tonnes in 1981, the Government would be prepared to look, with a view to movement, at what could be done to reduce this figure towards its irreducible minimum, ie those quantities of coal not produced domestically; and second that the NCB and the unions should stand back from the Government's financial constraints and discuss a pattern of proposals for closures consistent with Plan for Coal and the severe economic realities. In this event the Government would be prepared to discuss the financial constraints with an open mind and also with a view to movement. Under continued pressure from the union side, Sir Derek Ezra had then said that in the light of the Government's willingness to review the financial constraints on the industry the NCB would withdraw their closure proposals and re-examine the position in consultation with the unions. The Secretary of State for Energy concluded that, while he could not be certain that these concessions would avert a national strike, he was sure that nothing less would have done so. It had been agreed that the three parties should meet again on the following Wednesday, 25 February.

In discussion there was unanimous support for the decisions taken and the actions of the Secretary of State for Energy. A national coal strike at this juncture would have been very damaging, not least to private firms struggling to cope with the recession. Thus, while the position reached could have unfortunate repercussions, the alternative would have been far worse.

SECRET

SECRET

In further discussion the following main points were made:-

- a. The Government had been seriously misled by prior assurances from the NCB that an accelerated closure programme would be accepted, albeit reluctantly, by the miners. The reality was that the NCB had gambled and lost.
- b. It was important to recognise that the NCB had not promised to halt pit closures but to discuss them with the NUM against the background of Plan for Coal. This had envisaged closures and Mr Gormley, the President of the NUM, had publicly acknowledged that some closures were necessary.
- c. The present settlement could have repercussions elsewhere. The fishing industry, for example, might seize on the Government's willingness to take action on coal imports as a precedent for the action they wanted on imports of fish. Moreover, although pay and closures were different matters, some unions, eg in the water industry, might be encouraged to adopt a more militant approach to their current pay negotiations.

THE PRIME MINISTER, summing up the discussion, said that Cabinet endorsed the action taken by the Secretary of State for Energy. It had been reported during the meeting of the Cabinet that the NUM Executive had rejected that morning a proposal to ballot the mine-workers seeking endorsement for an all-out strike and this news was welcome. Nevertheless the situation would remain delicate for some time and unofficial action might be continued in some areas. It was thus necessary for the Government to be very circumspect in public comment, even though this might mean that, for the time being, they could not deploy a full response to critics among their own supporters. The best course would be to stick closely to the words used by the Secretary of State for Energy and to avoid gloss or interpretation. A robust defence of the Government's actions at this time might well undermine elements in the NUM who were doing their best to control the situation.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

SECRET

NEGOTIATIONS
IN THE WATER
INDUSTRY

Previous
Reference:
CC(81) 1st
Conclusions,
Minute 5

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the indications were that the General and Municipal Workers Union - the largest in the water industry - would reject the current pay offer of 10 per cent, though opinion in the other two main unions involved was more evenly balanced. The National Water Council (NWC) would be meeting the unions formally on 25 February, and Sir Robert Marshall, Chairman of the NWC, would aim to achieve a negotiated settlement at that meeting, without giving the union side an option for a further protracted round of consultation with their members. Sir Robert Marshall had indicated that it might be necessary for the NWC to offer 11 per cent, or even 12 per cent to achieve a settlement, and had been left in no doubt that the Government attached great importance to achieving the lowest practicable figure. It was desirable that the gas industry negotiating meeting on 24 February should not result in an enhanced offer which would encourage the same unions, representing the water workers, to attempt to leapfrog it at their meeting with the NWC on the following day.

In discussion, it was suggested that in spite of the results emerging from the union consultation, the mass of water workers might be unwilling to face the consequences of an all-out strike. The Government should do more to mobilise publicity about the consequences of a strike for the public, and the reasonableness of the pay increase now offered in comparison with that available to many other workers who, moreover, did not enjoy comparable security of employment. It was noted that the attitude of supervisory staff, whose co-operation would be vital in maintaining supplies if the manuals withdrew their labour, was still uncertain and difficult to predict. In Scotland, however, the supervisors were local authority employees and in some cases subject to a closed shop. It might be particularly difficult for them to co-operate with the Government even if they wanted to.

The Cabinet -

2. Took note.

PRIVATE
SECTOR STEEL

THE SECRETARY OF STATE FOR INDUSTRY reported that the British Steel Corporation (BSC) and Guest, Keen and Nettlefolds, had now reached agreement on a joint company to rationalise their rod, bar and wire interests, and an announcement would be made on 20 February. The new company would be of a substantial size and would be in the private sector. The BSC was also engaged in discussions of other possibilities for collaboration with the private sector, but these were not yet



SECRET

finalised. The agreement reached and those which might follow would reduce the level of complaints about unfair competition from the BSC, some of which were in any case misconceived because much of the real competition came from imports. Nevertheless the BSC were very conscious of the need to avoid charges of unfair competition and Mr MacGregor had undertaken to look personally at any complaints raised by Members of Parliament.

Finally, the SECRETARY OF STATE FOR ENERGY stressed that the information which he had given Cabinet was commercially sensitive and should be rigorously safeguarded until announcements were made.

The Cabinet -

3. Took note.

Cabinet Office

23 February 1981.

SECRET

CONFIDENTIAL

MOST CONFIDENTIAL RECORD

CC (81) 12TH CONCLUSIONS MINUTE 4

THURS 19th MARCH 1981

CONFIDENTIAL

File

CABINET OFFICE
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FILE No.

23 March 1981

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JW
23/3.

Cabinet, Thursday 19 March 1981

--- Sir Robert Armstrong has decided that a full record of last Thursday's discussion in Cabinet on the Civil Service Dispute should be sent separately to those directly concerned. I enclose a copy with this letter. Copies also go to John Wiggins (Treasury) and Jim Buckley (Civil Service Department).

There is no reference to the existence of this record in the Cabinet minutes and I should be grateful if it could not be referred to or quoted from. It should also be seen only by the Permanent Secretaries in the Treasury and the CSD and the Chairman of the Board of Inland Revenue.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

D. J. WRIGHT

(D J Wright)
Private Secretary

Clive Whitmore Esq

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Copy No. 1 of 4 Copies

MOST CONFIDENTIAL RECORD
TO
CC(81) 12th CONCLUSIONS, MINUTE 4

Thursday 19 March 1981

CIVIL
SERVICE
DISPUTE

Previous
Reference:
CC(81) 11th
Conclusions,
Minute 4

THE LORD PRESIDENT OF THE COUNCIL said that the contingency arrangements to deal with the current industrial action in the Civil Service were generally working satisfactorily, with Departments on notice to consult the Civil Service Department on any unexpected or major difficulties. An interdepartmental group of officials would be putting forward recommendations in early April for an ordered and agreed system of pay determination in the longer term and, if necessary, for interim arrangements in 1982. Pending consideration of these proposals, which could form a basis for resolving the present dispute, he recommended that so far as possible the Government should avoid doing anything which might provoke the unions to escalate their industrial action. A problem had, however, arisen in the Inland Revenue which could call for action which might lead to escalation. Under the contingency arrangements now in force 80 per cent of Pay As You Earn (PAYE) revenue was still flowing and, provided that the banking unions did not succeed in making good their threat to take action in sympathy with the Civil Service unions, these arrangements should continue to work. They did not, however, provide for dealing with the remaining 20 per cent of revenue which was made up of relatively small cheques sent in a total of around 900,000 separate letters a month. The Inland Revenue judged that action should now be taken to deal with these receipts, if those staff currently helping under the contingency arrangements were not to lose morale. They recommended that the letters should be diverted to 250 local offices where a total of 9,000 staff would be asked on Friday 20 March to deal with them. If they refused to do so, they would be issued with Temporary Relief from Duty (TRD) notices on Monday 23 March and, if necessary, sent home under the TRD procedures on the following day. It was uncertain how the staff concerned would respond and there was undoubtedly a risk that such a move would lead to escalation of industrial action both within the Inland Revenue and elsewhere.

THE CHANCELLOR OF THE EXCHEQUER said that of the normal PAYE receipts of about £2½ billion a month approximately £425 million were not being dealt with. Those grades co-operating under the contingency arrangements were already facing criticism from the unions, and there had been a demonstration outside the Inland Revenue's Bush House office that morning. There was a risk

CONFIDENTIAL

CONFIDENTIAL

that their morale and their readiness to continue to co-operate with the management would suffer if action were not taken to deal with the 20 per cent of revenue outstanding. If the measures proposed were to lead to the suspension of 9,000 staff, this would cost the unions about £750,000 a week in supporting those suspended; this pressure on their funds could be helpful in bringing industrial action to an end.

THE ATTORNEY GENERAL said that it would be in order to implement TRD arrangements for staff refusing to take on work of a type which they might normally be expected to carry out, provided that they were not required to undertake an unreasonable amount of overtime in order to do so.

In discussion it was pointed out that it was a substantial achievement that under the contingency arrangements 80 per cent of PAYE revenue was unaffected. It was unclear that the further action proposed would have any useful effect; if the 250 offices were already fully occupied with their present workload, the staff could reasonably claim that they did not have time to deal with any extra work, the TRD procedures could not be operated, and extra receipts would not be secured. The Government's attempt to introduce the proposed arrangements, and any suspensions which did result, could however provoke an escalation of industrial action before the Government were ready to come forward with the proposals for determining pay in future years which might bring the present dispute to an end. Any premature escalation of the dispute would add to the difficulties of negotiating the introduction of a revised system. Rather than take action which might escalate the dispute at this stage, it would be better for the Government to emphasise its intention to put forward proposals in April for new arrangements and to argue that this justified a reduction of industrial action in the meantime.

In further discussion it was pointed out that the British Broadcasting Corporation's (BBC's) radio report of the demonstration that day outside Bush House had been biased in tone and unhelpful in revealing how the envelopes containing high value cheques were coded. If the transcript of the broadcast bore out the impression of bias, consideration should be given to complaining to the BBC.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that for the time being the Inland Revenue should not attempt to introduce any special arrangements to deal with the 20 per cent of PAYE payments which were not being handled during the present industrial action.

CONFIDENTIAL

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The Cabinet -

Invited the Chancellor of the Exchequer and the Lord President of the Council:

- i. To keep under review the Inland Revenue's arrangements for dealing with Pay As You Earn receipts during the present Civil Service industrial dispute and to report further in the week beginning 23 March.
- ii. To consider whether the transcript of the British Broadcasting Corporation's radio broadcast on the demonstration outside the Inland Revenue's Bush House offices that morning justified complaints to the Corporation of bias in reporting.

Cabinet Office

20 March 1981

CONFIDENTIAL

MOST CONFIDENTIAL RECORD

TO CC (81) 15th conclusions MIN 5

THURS 9th APRIL 1981



MOST CONFIDENTIAL RECORD
TO
CC(81) 15th CONCLUSIONS, MINUTE 5

Thursday 9 April 1981

PAY OF MPs,
MINISTERS
AND JUNIOR
MINISTERS IN
THE HOUSE
OF LORDS

Previous
References:
CC(81) 2nd
Conclusions,
Minute 7 and
CC(81) 6th
Conclusions,
Minute 1

THE CHANCELLOR OF THE DUCHY OF LANCASTER AND PAYMASTER GENERAL said that the Chairman of the Top Salaries Review Body (TSRB) had recently asked whether the Government still wished the Body to carry out a review of Members' of Parliament (MPs') and Ministers' pay for 1981. The House of Commons would expect there to be such a review in accordance with the Government's undertaking. The best outcome in present circumstances would be for the TSRB not to put forward new salary levels but to recommend, as they had done for other groups and would be willing to do for MPs, the full implementation of their 1980 recommendations as soon as possible. The Review Body should, however, be asked to advise on the updating of Parliamentary allowances. It would then be for the Government to decide what recommendations, if any, to make for MPs' pay this year, bearing in mind that the resolution passed by the House of Commons last year meant that an MP's salary would be increased from £11,750 to £13,150 in June. This would be an increase of 12 per cent but had to be compared with the £13,750 recommended in 1980 by the TSRB for the third stage of the implementation of their recommendations of the previous year. In their memorandum he and the Lord President had set out a number of options. The House of Commons would expect a further increase beyond that due to come into effect in June, and it was his considered judgment, with which the Chief Whip agreed, that the minimum acceptable increase would be a further increase of 6 per cent on the third stage salary of £13,150 already due to come into effect on 13 June, to £13,950. If similar increases were given to Ministers, the resulting salaries would be those described in option D of his paper.

In discussion it was argued, in support of an increase to £13,950, that MPs still believed that they had been unfairly penalised by the decision of the Government in 1979 to implement the recommendations then made by the TSRB in three annual stages. The Government had to be mindful of feelings in the House. They needed the goodwill of their supporters in Parliament, and a further prolonged dispute about MPs' pay, in the course of which the Government might well be defeated, would be very damaging.

On the other hand it was argued that the Government ought not to propose any increase in MPs' pay above the figure of £13,150 already agreed for next June (option B). This would represent an increase of about 12 per cent. To propose any higher figure would be seen to be quite out of line with other pay settlements in both the public and the private sectors. Any early announcement of such a proposed figure would make it more difficult to achieve satisfactory settlements in coming negotiations. If option D were adopted MPs would receive £200 more than the TSRB had recommended in their 1980 report, while the pay of senior civil servants, senior officers in the armed forces and the judiciary, who were likely to receive a further increase of only about 6 per cent, would remain well below the figure recommended by the TSRB for 1980. The Government should not be seen to envisage worse treatment for its own employees than for MPs. Option B had the additional advantages of not requiring any overt action by the Government and not producing figures exactly corresponding, as option C would have done, with those recommended by the TSRB.

In further discussion, it was suggested that, before the Cabinet took a final decision, some informal and confidential soundings should be made of opinion in the House of Commons. It was objected to this that to do so might lead to a renewed campaign for much higher increases of the scale illustrated in option E, and any indication that MPs might receive increases of between 15 per cent and 20 per cent would be a grave embarrassment to Government in current negotiations. It might therefore be better for the Government to announce its decision, without consultation, at the appropriate time.

THE PRIME MINISTER summing up this part of the discussion, said that the Cabinet agreed that the TSRB should be invited to produce a new report on the pay of MPs and Ministers on the basis suggested in C(81) 13. The Cabinet had had a useful preliminary discussion of the difficult problem of the pay of MPs for 1981, and recognised the importance of not being defeated in the House of Commons on the issue. The Cabinet were not yet in a position to reach any decision and, since the matter could be deferred until some current negotiations had been completed, they agreed that they would resume their discussion at a later date. They could not usefully give further consideration to the pay of Ministers for 1981 until they had reached decisions on the pay of MPs.

THE LORD PRESIDENT OF THE COUNCIL said that the Cabinet had previously decided that an increase of about £3,500 should be made in the remuneration of Junior Ministers in the House of Lords, who did not receive any Parliamentary salary, and some of whom were in considerable financial difficulties. In their memorandum he and the Chancellor of the Duchy had been able to make proposals for achieving the Cabinet's objective which, unlike earlier proposals, did not require primary legislation. The Ministerial and Other Salaries Act 1975 gave the Prime Minister discretion to fix the salaries of certain Ministers, including Ministers of State, within a range. It was now proposed that all Ministers of State should in future be paid at the top of the range, while Ministers of State in the Commons should receive a figure at the bottom of the range. The rates of salary presented in the 1975 Act were maxima, and the Act allowed for the payment of salaries lower than the maxima specified in the Act; it was therefore proposed that in future the maximum salary for Parliamentary Secretaries would be fixed at the level considered appropriate for those in the Lords, with Parliamentary Secretaries in the Commons being paid £3,500 less. He proposed that these changes should be made when other Ministerial salaries were next increased. Parallel increases would be given by Order in Council to office-holders and Whips in the Lords.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were glad to note that a way had been found to make the agreed increases for Junior Ministers in the Lords without primary legislation and agreed the proposals in paragraph 13 of C(81) 13. Care should be taken that this decision remained confidential until decisions had been taken about Ministerial salaries generally.

The Cabinet -

1. Took note that the Prime Minister would arrange for the Chairman of the Top Salaries Review Body to be informed that the Government would be content for the Review Body to report on the pay of Members of Parliament and Ministers in 1981 without recommending new salary rates, but to urge instead full implementation of their earlier recommendations as soon as possible. The Review Body would however be asked to advise on the up-dating of Parliamentary allowances in the usual way.
2. Agreed to resume their discussion of the pay of Members of Parliament and Ministers at a future meeting.



3. Approved the proposals in paragraph 13 of C(81) 13 on the methods for giving effect to their earlier decisions in principle to increase the remuneration of Ministers of State and Parliamentary Secretaries in the House of Lords, as a basis for proceeding when next there was a general increase in Ministerial salaries.

Cabinet Office

10 April 1981

SECRET + PERSONAL

Index.....

SUBJECT

MOST CONFIDENTIAL RECORD

CC(81)20TH CONICS. MIN. 4.

Thurs 21 May 1981.

No.	Contents	Date
	Civil Service Pay.	

SECRET

Copy No. 1 of 5 Copies

MOST CONFIDENTIAL RECORD
TO
CC(81) 20th CONCLUSIONS, MINUTE 4

Thursday 21 May 1981

CIVIL
SERVICE
PAY

Previous
Reference:
CC(81) 19th
Conclusions,
Minute 4

THE LORD PRESIDENT OF THE COUNCIL said that at the main conferences of the Civil Service unions motions had been passed at them which would enable the unions to step up the severity of their action if the leadership so decided. Decisions on whether there should in fact be an intensification of action were reserved to the Council of Civil Service Unions (CCSU) who would be meeting early in the following week to decide the course of action to follow. The conference resolutions envisaged the possibility of a full-scale strike lasting for five days; on balance he judged it improbable that the unions would follow this course because only a minority of civil servants might actually comply with such a decision. An all-out strike for a shorter period or intensification of selected action on present lines was more likely. The fact that there was a gap of a few days between the ending of the union conferences and the implementation of any decision to intensify action might be thought to offer an early opportunity to open discussions, but this might not prove to be feasible, given the attitude adopted at the union conferences and the CCSU's internal arrangements (whereby all the unions had to be represented at any talks with Government). It was therefore now likely that the situation would get worse before it got better, and the dispute would probably last for some time yet. There was little alternative for Government but to sit matters out and await developments. In the meantime contingency plans to mitigate the effects of the strike were operating well, and thought was being given to a number of possibilities for action by Government when the moment seemed opportune.

THE CHIEF SECRETARY, TREASURY reported that there was little change in the situation in the revenue Departments.

THE SECRETARY OF STATE FOR TRADE reported that the air traffic controllers' action in the dispute had settled down to a pattern. Heathrow Airport was regularly disrupted but Gatwick Airport was working normally for most of the time. The dispute was causing financial loss to the airlines and one American airline was seeking compensation from the Government. Subject to legal advice, it was unlikely that they had a substantive case for this.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation at the Passport Office was deteriorating, particularly in relation to applications for new passports.

SECRET

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THE SECRETARY OF STATE FOR TRANSPORT said that his main problems concerned the Driver and Vehicle Licensing Centre at Swansea. Mail was now getting in and out, but it had not yet been possible to get in new supplies of nitrogen. For the public the main problem was that new drivers were unable to get provisional driving licences.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that his Department's computer at Guildford was now affected. The action there was preventing the payment of grants to farmers and the payment of Monetary Compensation Amounts to the trade. Farmers were also being deprived of Value Added Tax refunds. While the action had only just started, the sums of money were significant in relation to farmers' incomes.

There was some discussion both of the measures which the Government might take in response to further escalation and of the basis on which the Government should seek to settle the dispute, but no conclusions were reached or required.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that no further steps should be taken by the Government in the present dispute until the scale and nature of any action to be taken by the Civil Service unions following the meeting of the CCSU next week were known. The Cabinet would revert to the issues as necessary after the Recess.

The Cabinet -

Took note.

Cabinet Office

26 May 1981

SECRET

SECRET

Index.....

SUBJECT

MOST CONFIDENTIAL RECORD

CC (81) 21st Conclusions, Minute 5

THURSDAY 4 JUNE 1981

No.	CIVIL SERVICE PAY Contents	Date

File
*Sr. R. Armstrong to see.**✓ Spw 5/6*

4th June 1981

Cabinet: Thursday 4th June 1981

The record of today's Cabinet discussion on the Civil Service Pay dispute has been produced as a Most Confidential Record. I enclose a copy with this letter which also goes to John Wiggins (Treasury) and Jim Buckley (CSD).

The Cabinet Conclusions contain no reference to the existence of this record. It should not, therefore, be referred to or quoted from.

I should also emphasise the considerable sensitivity of this record. It is not being copied to any other Government Department and needs to be protected. I should, therefore, be grateful if John Wiggins and Jim Buckley could ensure that the record does not leave their Private Offices and that the only officials to see it are their Permanent Secretaries.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

D. J. WRIGHT

(D. J. Wright)

C. A. Whitmore, Esq

SECRET

MOST CONFIDENTIAL RECORD
TO
CC(81) 21st CONCLUSIONS, MINUTE 5
Thursday 4 June 1981

CIVIL
SERVICE
PAY

Previous
Reference:
● CC(81) 20th
Conclusions,
Minute 4

THE LORD PRESIDENT OF THE COUNCIL said that the Council of Civil Service Unions had given notice on 26 May that, unless negotiations took place or arbitration was agreed by 8 June, they would extend their present selective industrial action to areas of work which had not hitherto been affected. They had, however, asked for talks with the Civil Service Department with a view to seeing whether the dispute could be resolved without resort to such further action. In the light of those talks, he judged that a majority of the leaders of the 9 Civil Service Unions were genuine in their wish to bring the dispute to an end and that they had not asked for a resumption of discussions simply to try to regain some public support for their case. Although the details were still for discussion, it was likely that agreement could be reached on wide-ranging terms of reference for an inquiry into the longer term arrangements for determining Civil Service pay. The unions would expect that arbitration would be again available to them in 1982 but they appeared to recognise that the Government had to retain ultimate control of Civil Service pay and, therefore, to have a power to override, subject to Parliament approval, an arbitral award. He judged that from 1981 they might be willing to recommend their members to accept an increase of $7\frac{1}{2}$ per cent, but not the 7 per cent which the Government had so far offered. After careful examination of the figures, he was satisfied that a $7\frac{1}{2}$ per cent increase could be accommodated within a cash limit of 6 per cent without further planned reductions in Civil Service staff numbers; this was now possible because the run down of numbers had proved to be faster than had been assumed earlier in the year. The additional $\frac{1}{2}$ per cent would cost about £25 million for the industrial and non-industrial Service together. He would offer an increase of $7\frac{1}{2}$ per cent only if, following prior soundings, he was satisfied that union leaders would be willing to put it to their members, albeit without a recommendation, and that this was likely to lead to an end to the dispute. He invited the Cabinet to give him authority for this course of action. If, on the other hand, he could offer no further concessions he saw no chance of a settlement being reached and the certainty of an escalation in the industrial action. After a few months it might well be that this action would collapse and the Government could impose a settlement, but this would be at the expense of increasing costs to the Government and of increasing criticism from the public.

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In discussion of the increase to be offered for 1981 the following were the main points made in support of increasing the offer to $7\frac{1}{2}$ per cent:-

- a. The resumed talks between the unions and the Civil Service Department had offered a possibility, which was open until 8 June, of bringing the dispute to an end. While industrial opinion would obviously prefer a settlement of 7 per cent it was likely that they would find a settlement of less than 8 per cent acceptable, particularly if this could be accommodated within the 6 per cent cash limit on Civil Service pay which the Government had always made clear was the primary discipline on the Civil Service pay bill. A settlement of $7\frac{1}{2}$ per cent would be the same as that reached for local authority manual workers and for the teachers. If its award was effective in bringing the present dispute to an end, it would be widely regarded as a very successful outcome for the Government.
- b. If no concessions were made, the present, relatively moderate, Civil Service Union leaders would lose the support of their membership. The Government would then risk facing, both in the present dispute and in later years, a much more hostile and militant union leadership. It could be damaging to the Government if, as a result of a protracted dispute, its relationship with its employees was soured and embittered.
- c. If the industrial action were to be escalated the costs, and the disruptions to services, would increase sharply. Failures to record national insurance contributions were already making it impossible to determine the level of pensions to be paid. Short term benefits could not be calculated accurately and, while under-payments would have to be made good, it would be very difficult to claw back over-payments, with the result that net public expenditure would increase. If action were to be escalated in Department of Employment and Social Security offices, it might become impossible to introduce from April 1982 the taxation of unemployment benefit; and the uprating of social security benefits and the payment of child benefit could be affected. Farmers' cash flow was already suffering from delays in payments due to them. Contracts for work to be carried out by private sector firms were not being issued, and some firms could go out of business as a result. Industrial action by the air traffic controllers was continuing and the airlines had already lost £20 million revenue which would increase to £45 million if the action were to continue for another four weeks. Emergency legislation would be necessary to deal with the delays in processing cases in the Scottish courts.

SECRET

The main arguments in support of making no increase beyond the present offer of 7 per cent were:-

- d. Even if $7\frac{1}{2}$ per cent could be accommodated within a 6 per cent cash limit, the Government was firmly committed to its offer of 7 per cent. A further increase now would be widely criticised as unnecessary and as weak. Although the short-fall on revenue, resulting from action by the staff of the Inland Revenue and Customs and Excise, was now in the order of £3 - $3\frac{1}{2}$ billion, most of this would be recouped later in the year when the action was over; the monetary figures which were due to be published shortly were likely to strike commentators as being surprisingly good, and would undermine the unions' claims that their action was damaging the Government's economic policies. The unions' morale was declining and their confidence weakened by the realisation that public opinion generally supported the Government and that this support could be reinforced if the action were to be escalated. Against this background, industrial, financial and Conservative Party back-bench opinion was likely to be highly critical of any increase in the present offer of 7 per cent. Local authorities, which had conformed with the Government's objective that they should reach pay settlements within their cash limits, would be critical if the Government were now to go back on its declared intention of giving no more than 7 per cent to its own employees. Any increase beyond 7 per cent would add considerably to the present difficulties of reaching a settlement of 6 per cent for the National Health Service groups.
- e. Even if the union leadership were to recommend their members to accept $7\frac{1}{2}$ per cent, there was no guarantee that this would be accepted. The Government would then be faced with the prospect of either continuing industrial action or yet further concessions. It was, moreover, questionable whether a $7\frac{1}{2}$ per cent increase could be accommodated within a 6 per cent cash limit. The present assumptions could prove wrong if later in the year new demands - for example, for the payment of unemployment benefit - were to check the fall in staff numbers.
- f. In standing firm on the present offer the Government could continue to point out that two substantial concessions had already been offered to the unions. It had been agreed that there should be greater flexibility in 1982 in the operation of cash limits. A wide ranging and independent inquiry had been offered with a view to introducing new arrangements for the longer term. (Although it was noted that the unions could well regard this as more likely to bring benefits to the Government rather than to themselves.)


SECRET

In further discussion the following were the main points made:-

g. Consideration should now be given to imposing, with effect from April 1981, the proposed 7 per cent increase for the non-industrial Civil Service. It was likely that industrial civil servants would then also accept 7 per cent from July 1981. The risk of this course was that civil servants would receive increased pay but many of them might continue to support industrial action for more concessions. The alternative of imposing a 7 per cent settlement on those who were working at a specified date would lead to the drawing of invidious and unsatisfactory distinctions; many of those who were purporting to work were in practice supporting continuing industrial action.

h. There were considerable disadvantages in offering arbitration, subject to Parliamentary override, in 1982. In practice it could be very difficult for the Government to secure Parliamentary approval for the overriding of an arbitral award which was higher than the Government would wish but not so much higher as to be patently unacceptable. If as a result the Civil Service were to receive increases in 1982 higher than those for which the Government had planned, public expenditure would increase (or other public expenditure programmes would have to be cut back) and there would be an adverse effect on other pay settlements, both in the public sector and the private. ;

THE PRIME MINISTER summing up the discussion said that the Cabinet agreed on balance that there should be no increase in the present offer, to which the Government was firmly and publicly committed, of 7 per cent for the non-industrial Civil Service from April 1981. They further agreed that there should be no commitment to arbitration on pay in 1982; such a commitment, even if it were subject to Parliamentary override, could prove to be extremely costly both in terms of the Civil Service pay bill and the consequences for other pay settlements. In explaining its decision to stand firm on the present offer, the Government had an excellent case to deploy: in addition to offering a 7 per cent pay increase in 1981, it had accepted greater flexibility in the operation of the cash limit system in 1982, and proposed an independent and wide-ranging inquiry into the arrangements for the longer term. Moreover it was the case that civil servants enjoyed greater job security than private sector employees, had the benefit of inflation proofed pensions and benefitted in many cases from the system of annual increments. It was also relevant that the 7 per cent pay increase on offer to them represented something nearer to a 10 per cent increase in annual pay compared with last year when the agreed increase had been staged. If the dispute continued it would be necessary to consider further the case for imposing the settlement of 7 per cent with effect from 1 April 1981.



SECRET

The Cabinet -

Agreed:-

1. That there should be no increase in the offer of 7 per cent on the pay of non-industrial civil servants from April 1981.
2. That no undertaking should be given to allow arbitration on Civil Service pay in 1982.

Cabinet Office

4 June 1981

SECRET

SECRET

Index

MOST CONFIDENTIAL RECORD

~~SUBJECT~~

cc (81) 24th CONCS

Thursday 18 June 1981

No.	Contents	Date
	<p><u>CONFIDENTIALITY OF CABINET</u> <u>PROCEEDINGS</u></p>	

SECRET

MOST CONFIDENTIAL RECORD
TO
CC(81) 24th CONCLUSIONS, MINUTE
Thursday 18 June 1981

CONFIDENTIALITY
OF CABINET
PROCEEDINGS

THE FOREIGN AND COMMONWEALTH SECRETARY drew attention to the reports in the Press and broadcasting media the previous afternoon and that morning on the Cabinet's discussion of economic strategy on 17 June. If the proceedings of the Cabinet were to continue to be divulged in that degree of detail, the confidentiality which was necessary to sustain confidence and trust among colleagues could no longer be sustained. This could have a serious effect upon the readiness of members of the Cabinet to disclose confidential information and to speak their minds at meetings of the Cabinet.

In discussion there was much support for what the Foreign and Commonwealth Secretary had said. It was not just that the accounts in the newspapers had put a gloss on the proceedings, in terms of reports that the views of one group had prevailed against those of another, but there had also been factual accounts of the nature of the Chancellor of the Exchequer's paper, the order in which Ministers had spoken and the content of what they had said. No doubt members of the Parliamentary Lobby acted like a team of sleuths, piecing together information from different sources. It would be unwise to suppose that Press Officers were to blame, and the stories appeared in the Press long before the minutes were circulated. The sources of the information must be among those who were present at the meeting, and the channels by which the information reached the Press must be assumed to be primarily political. It was suggested that members of the Cabinet needed to brief their junior Ministers and Parliamentary Private Secretaries about the outcome of meetings of the Cabinet, in order that they should be able to defend Government policies; but briefings of this kind needed to be undertaken with great caution, if they were not to become sources of unauthorised and unwanted disclosures to the Press.

THE PRIME MINISTER, summing up the discussion, said that, in view of the interest taken by the Press in the meeting of the previous day's Cabinet, it had been necessary for her Press Secretary to give guidance to the Lobby after the meeting. She had told the Cabinet at the meeting the nature of the guidance to be given; and the guidance which he had actually given followed what she had said, going beyond it only to the extent of emphasising the need for keeping public expenditure under control. While it was necessary for the conduct of Government that decisions taken by the Cabinet should be

SECRET



SECRET

disseminated to those required to take action upon them, and while it was no doubt on occasion desirable that some indication of the reasons for the Cabinet's decisions should be given to Ministerial colleagues or senior officials before the minutes were circulated, the general rule should be, as it had been in the past, that junior Ministers and senior officials should rely upon the circulated minutes for their knowledge of Cabinet decisions and the reasons for them. Members of the Cabinet should be extremely cautious about divulging details of proceedings in Cabinet, even to Ministerial colleagues in their own Departments, and should not in any circumstances disclose them to journalists.

The Cabinet -

Took note.

Cabinet Office

19 June 1981

SECRET



Index.....

SUBJECT

MOST CONFIDENTIAL RECORD TO CC(81)26th CONCS.

THURS 2nd JULY 1981

No.	Contents	Date
	NORTHERN IRELAND.	

MOST CONFIDENTIAL RECORD
TO
CC(81) 26th CONCLUSIONS

Thursday 2 July 1981

NORTHERN
IRELAND

Previous
Reference:
CC(81) 25th
Conclusions,
Minute 4

At the end of the Cabinet's meeting on 2 July (CC(81) 26th Conclusions) there was an informal discussion of the situation relating to Northern Ireland, during which the following points were made:-

a. There were increasingly disturbing signs of an erosion of international confidence in British policy in the light of the continuing hunger strike at the Maze Prison. The difficulties which this would cause for the Government when further hunger strikers began to die should not be underestimated; they would compound what would in any case be an extremely serious situation in terms of security and public order. The problem was no longer solely one of ensuring that the Government's stance was properly understood. There was a real need to avoid that stance being condemned, however unfairly, as inflexible. On the other hand, any gesture to reduce the appearance of inflexibility was liable to be interpreted, both by the Protestant community and by the Irish Republican Army (IRA), as a prelude to capitulation. It was in any case not easy to see what gesture might be possible. Ideally some independent body should be invited to satisfy itself, and certify publicly, that the Government's attitude on the prison regime was both humane and reasonable. But the European Commission for Human Rights had made clear that they were not willing to play any role in the absence of any specific complaint. The Government could not of course make such a complaint against themselves; the prisoners were not prepared to do so; and though another Government could in theory fill the gap it was questionable whether it would be wise to try to stimulate this. It was encouraging that the Irish Commission for Justice and Peace (ICJP) had welcomed the Secretary of State for Northern Ireland's recent statement on the prison regime. Their continuing involvement might prove helpful, though it would be undesirable that they should be allowed to assume the role of intermediary between the strikers and the Government. But it could not alter the underlying problem, which was becoming increasingly clear: the hunger strikers' real aim was not to alter prison conditions but to bring about a British withdrawal from the Province and the unification of Ireland.

b. The difficulty of the Government's position seemed certain to be increased by the evolving Opposition attitude towards Irish unity as an ultimate objective. The expected speech by Mr James Callaghan in the Northern Ireland debate later that day might prove to be a watershed. As a former Prime Minister and Leader of the Opposition his views would carry special weight. He had already indicated privately that he thought the British "guarantee" should apply not to Northern Ireland as a territory but to its inhabitants; the territory should become independent, with transitional arrangements under which British troops and British financial assistance would remain available for a limited period; but those of its inhabitants who wanted to remain citizens of the United Kingdom should be guaranteed the right to do so. It was not certain that he would be as explicit as this in his forthcoming speech. But the whole context of the current British debate about Northern Ireland would be altered if the question he addressed was not whether British policy was winning or losing in the struggle there, but whether it was a struggle in which Britain ought any longer to be involved at all. His views might well receive massive support from public opinion in Britain, where there was already a widespread feeling in favour of British withdrawal. It could be argued, indeed, that the watershed was already passed. The decisive moment had been the Fermanagh by-election, and the choice of an imprisoned terrorist hunger striker to represent a Northern Irish constituency at Westminster. Many people in Britain now believed that a settlement of the complex problems of the area would be more easily reached by the Irish on their own and that continued British involvement could only mean the futile sacrifice of further British lives.

c. Whatever the state of British opinion, withdrawal would not be an easy proposition for any Government. Civil war and massive bloodshed were likely to be the immediate result in Northern Ireland, and the trouble could easily spread to the large Irish communities in some major cities in Great Britain. In any case, the present guarantee to the Province was enshrined in statute and could only be modified by new legislation. The passage of this would be an occasion for turbulence as well as controversy. Even the suggestion of a withdrawal could lead to serious unrest in Western Scotland.

d. Since the immediate problem was how to avoid a new series of deaths of hunger strikers, it was for consideration whether they could not be kept alive by compulsory feeding. If done intravenously by modern methods this should not involve the violent scenes associated with the forcible feeding of hunger striking prisoners in the past. On the other hand, it was uncertain whether the prison doctors would be willing to co-operate; and if intravenous feeding led to all the protesting prisoners coming out on hunger strike the authorities would be faced with the enormous task of sustaining them by such methods indefinitely. In any case, the implications for the running of prisons elsewhere in the United Kingdom would need to be carefully weighed. The decision by the Labour Government of the day to abandon forcible feeding had been taken with the full support of the Conservative Opposition. The step had been widely welcomed by public opinion both at home and abroad, and had been emulated by a number of other Governments in Europe. Nevertheless the possibility of intravenous feeding deserved serious study. More generally, there was no doubt of the importance of avoiding further hunger strike deaths if at all possible.

THE PRIME MINISTER, summing up the discussion, said that further thought would need to be given to all possible courses of action in regard to Northern Ireland, however difficult or unpalatable. But it would first be necessary to await the outcome of the forthcoming debate in Parliament, and the meeting which the Minister of State, Northern Ireland Office (Mr Alison) was to have with her on 3 July.

The Cabinet -

Took note.

Cabinet Office

7 July 1981

Index

MOST CONFIDENTIAL RECORD



SUBJECT

CNHL SERVICE PAY CC (81) 27th CONCS.
THURS 9th JULY.

No.	Contents	Date



10 DOWNING STREET

① ~~Mr Horngate~~

②. Mr Whitmore ✓

W.D.

13/7.

Cf.

✓
12 return to Dennis
Wager.

W
13th

CONFIDENTIAL AND PERSONAL



Covering SECRET

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 8319

From the Secretary of the Cabinet: Sir Robert Armstrong KCB, CVO

Ref. A05231

W. Vignoles 13/7
M. Duggan 13/7
To m.
10 July 1981 10.10

Dear Clive,

Civil Service Pay: Cabinet 9 July

I enclose a copy of the Most Confidential Record of the Cabinet's discussions on Civil Service pay on 9 July. The existence of this Record was not mentioned in the Cabinet Conclusions and it should not, therefore, be referred to or quoted.

I am sending copies to John Wiggins (Treasury), Jim Buckley (CSD) and Richard Dykes (Employment). I should be grateful if they too would ensure that the Record is not referred to and that it is only seen by officials with a real need to know its contents.

In due course, I should be grateful if copies could be returned to me in the Cabinet Office.

Yours ever,
David

(D J Wright)
Private Secretary

C A Whitmore Esq

CONFIDENTIAL AND PERSONAL

SECRET

Copy No. 1 of 5 Copies

MOST CONFIDENTIAL RECORD
TO
CC(81) 27th CONCLUSIONS

Thursday 9 July 1981

CIVIL
SERVICE
DISPUTE

THE LORD PRESIDENT OF THE COUNCIL said that there had recently been some partial abatement of the industrial action in the non-industrial Civil Service; staff of the Passport Office were now working normally; there had been a considerable falling off of disruptions in Ministry of Defence establishments; the Air Traffic Controllers were not taking any action this week. The unions appeared to be continuing to concentrate on the revenue Departments, Scottish courts, Social Security and Department of Employment offices, and the section of the Paymaster General's Office dealing with public sector pensions. If the Government were to decide not to improve on its present pay offer, it was likely that industrial action would eventually crumble, but it could well carry on for some time in particular areas and the costs to the Government and the problems of recovering from the action were mounting. If, on the other hand, the Cabinet wished to bring the dispute to an end it might be possible to do so by a stick and carrot approach. He could write to the Council of Civil Service Unions (CCSU) that afternoon to tell them that the Government had decided that unless the unions called off their campaign of industrial action by 16 July, the date of 1 April 1981 for the pay increase would be withdrawn and the operative date decided later. He would then instruct a senior official of his Department to approach the Secretary of the CCSU privately on Friday 10 July to explore the possible outlines of a settlement which the unions might be willing to recommend to their members as adequate to bring the dispute to an end. The official would make it clear that Ministers had not authorised any concessions; the approach would be couched in terms of a personal exploration to see whether there were any proposals which might be put to Ministers for consideration, with some degree of probability that they would be accepted. The elements of a solution which might be explored were:-

- i. restoration of the operative date to 1 April;
- ii. consideration by the Government of one union nominee for the inquiry;

plus either or both of the following:

SECRET

SECRET

iii. the offer for 1981 to be increased to $7\frac{1}{2}$ per cent, the extra $\frac{1}{2}$ per cent to be financed within existing Departmental cash limits by further reductions in Civil Service staff costs;

iv. an improvement on the present arbitration formula for 1982 (that the Government was not committed to arbitration for 1982 but did not rule it out) on one of the following lines:

a. the Government would if necessary refer the dispute to arbitration in 1982, but would ask the House of Commons to override the award if it was too high; or

b. the Government would if necessary refer the dispute to arbitration in 1982, but would itself have power to set the award aside on grounds of overriding national policy.

While he wished to have authority to explore all the improvements if necessary, his aim would be to avoid, if possible, moving towards a settlement which included both the additional $\frac{1}{2}$ per cent in 1981 and the offer of arbitration in 1982.

In discussion the following main points were made -

a. If an informal approach were to be made to the unions on 10 July it would be better not to withdraw the operative date of the settlement in advance. Withdrawal would alienate those civil servants who had loyally worked long hours to deal with the consequences of their colleagues' action, and would make it much more difficult to negotiate a settlement. It would be better for the Civil Service Department negotiator to be authorised at his discretion, having explored the possible terms of a settlement, to remind the union representatives that the Government would be bound to have to act on the possibility, of which he had already given public warning, of withdrawing the operative date if the dispute were to continue.

b. There were disadvantages in increasing the offer for 1981 by $\frac{1}{2}$ per cent. It would be questioned why this offer had not been made before; this would have to be answered by reference to the additional staff cuts envisaged. The Secretary of State for Defence did not believe that he could find enough additional staff cuts in his Department, beyond those already planned, though he would do his best if this proved necessary. Other Departmental Ministers might also have difficulty in providing adequate staff savings, though they, too, would do their best.

SECRET

SECRET

On the other hand, if it proved impossible generally to find all the necessary cuts, the increase in the pay offer to $7\frac{1}{2}$ per cent could be criticised as a fudge. There was also a risk that the offer of a further $\frac{1}{2}$ per cent to the non-industrial Civil Service would have repercussive effects on other public sector negotiations. It would be particularly damaging if it were announced before the nurses accepted - as it now seemed likely they would - the offer of 6 per cent to them.

c. The offer of arbitration in 1982, under either of the methods suggested, could lead to difficult problems next year.

Experience of the arbitral award made to the teachers in 1980 had shown the difficulties in practice of inviting both Houses of Parliament to override an award. Although it would be practicable, and better, to confine the proposed override power to the House of Commons in respect of the Civil Service arbitration in 1982, this would not wholly meet the problem. It would be much more satisfactory if that arbitration could be made subject to a right of the Government to set the award aside on grounds of overriding national policy. The unions would, of course, regard such a provision as much less satisfactory than a Parliamentary procedure, particularly as the situation next year could be one in which it might be very difficult for the Government not to exercise its right of override.

d. Unless a firm offer were made quickly to the industrial civil servants, they might join their non-industrial colleagues in taking action. This reinforced the case for agreeing quickly on a settlement for the non-industrials, so that a comparable offer could be made to the industrials. It was also relevant that the industrial Civil Service unions had explicitly stated that the alteration in their settlement date next year to 1 April, which they were seeking in their current negotiations, would enable them to take joint action then with the non-industrial Civil Service in future.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Lord President of the Council should now be authorised to try to secure an early settlement to the dispute on the lines he had proposed, except that he should defer making any move to withdraw the operative date of the pay increase this year before the outcome of the further informal negotiations was known. There were disadvantages in both the proposal to offer an additional $\frac{1}{2}$ per cent in 1981 and to offer improved arbitration arrangements in 1982. It was

SECRET

SECRET

clear that the Cabinet would prefer a settlement which did not include both elements; and that, if arbitration were to be offered for the 1982 settlement, they would prefer it to be subject to Governmental override, without reference to Parliament. The Cabinet had also noted that, while all Ministers would do their best to secure additional off-setting staff economies should an enhanced offer of pay in 1981 prove necessary, some Departments would face particular difficulty in this regard. Finally the Cabinet had authorised her, the Chancellor of the Exchequer, the Lord President of the Council and the Secretary of State for Employment to supervise negotiations with the Civil Service unions within the framework of the Lord President of the Council's proposals and in the light of their discussion.

The Cabinet -

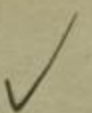
Agreed that the Prime Minister, the Chancellor of the Exchequer, the Lord President of the Council and the Secretary of State for Employment should have discretion to authorise negotiations with leaders of the Civil Service unions on the lines proposed by the Lord President of the Council, taking account of the points made in their discussion.

Cabinet Office

10 July 1981

SECRET

MOST CONFIDENTIAL RECORD



Ind.....

SUBJECT

Cc (81) 29th CONCS.

23 JULY 1981

1981. PUBLIC EXPENDITURE SURVEY.

No.	Contents	Date

SECRET

One Copy Only

MOST CONFIDENTIAL RECORD
TO
CC(81) 29th CONCLUSIONS

Thursday 23 July 1981

1981 PUBLIC
EXPENDITURE
SURVEY

Previous
References:
C(81) 23rd
Conclusions and
CC(81) 22nd
Conclusions,
Minute 5

The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(81) 37) on tax and public expenditure; memoranda by the Chief Secretary, Treasury (C(81) 38) and the Secretary of State for the Environment (C(81) 40) on local authorities' current expenditure in 1982-83; and a note by the Secretary of the Cabinet (C(81) 39) covering a note by the Central Policy Review Staff (CPRS) on public expenditure.

THE CHANCELLOR OF THE EXCHEQUER said that, contrary to the Government's expectations and promises, the burdens of tax and of public expenditure had both increased since 1979. The present burden of tax was one of the main factors hindering the growth of new employment opportunities. To widen the gap between the incomes of those in and out of work, to improve incentives for the lower-paid and to ease the poverty trap, a priority should be to raise substantially the starting point for income tax; in particular, it would be essential in the next Budget to avoid again withholding "Rooker-Wise" increases in personal tax thresholds, but he was not proposing at this stage any further reductions in income tax. It was also necessary to reduce the tax burden on business, probably by a reduction in the National Insurance Surcharge. Tax reductions of this kind were a better way of stimulating real employment, and with better long-term consequences, than additional public expenditure. To bring inflation down well into single figures and to permit a fall in interest rates over the medium term, it was necessary to keep to the medium-term financial strategy, and progressively to reduce the Public Sector Borrowing Requirement (PSBR) as a proportion of Gross Domestic Product (GDP). If, however, the financial markets were to take the view that the Government's determination was weakening, the economic strategy, and the reduction of inflation, would be increasingly vulnerable to the effects of high interest rates in the United States of America. The key to tax reductions lay in reducing the prospective totals of public expenditure. There were, however, serious problems in reducing the totals even to those in the 1981 Public Expenditure White Paper (Cmnd 8175). The present returns showed additional bids in 1982-83 of £6½ billion in cash, of which about £2½ billion was for additions to the nationalised industries' External Financing Limits (EFLs) and nearly £1½ billion for measures to reduce unemployment. Against this background, he

SECRET

SECRET

invited the Cabinet to endorse the general approach to the 1981 Public Expenditure Survey indicated in C(81) 37, and in particular the overriding aim of getting the overall expenditure totals below those derived from Cmnd 8175 so as to make possible, within the overall economic strategy, the tax reductions necessary for fulfilling the Government's economic and employment objectives.

In discussion the following were the main points made -

- a. The Chancellor of the Exchequer's paper was inadequate, because it did not provide the Cabinet with the figures which would be the only sensible basis for discussion: such figures as (for example) the expected outturn for 1981-82, and the Chancellor of the Exchequer's forecasts and assumptions on the proportion of public expenditure to GDP.
- b. The approach recommended by the Chancellor of the Exchequer did not offer a sufficiently imaginative and practicable response to the acute social and political problems now confronting the Government. A strategy centred on reductions of taxation and public expenditure would be irrelevant to the problems of Northern Ireland, or to those of Merseyside and other areas of urban dereliction and deprivation. Merseyside in particular was a community which was visibly falling apart, its hopelessness and despair compounded by the lack of commitment to the area of any of the wealth-creating institutions in the country. With unemployment totals rising to 3 million later in the year, and following the recent rioting in a number of cities, the tolerance of society was now stretched near to its limit. To give people renewed hope and confidence for the future, it was essential to take new and constructive action urgently.
- c. Such action could build on the many substantial improvements which the Government had achieved in the last two years and which provided a sound base from which to respond to a revival in growth, as the present world-wide recession came to an end: for example, improvements in management methods, in productivity, in competitiveness, and in the structure of business taxes, particularly those affecting small firms. To consolidate these achievements and reap the benefits of them required the continuance in office of the Government through the next Parliament; without that the achievements would be thrown away. If action were delayed for too long, it would then be seen as a panic reaction to mounting problems; if it came too late, it would risk wasting the improvements which the Government had made.

SECRET

SECRET

d. Many people were now far more worried by the problems of unemployment than by levels of tax. Priority should now be given to measures to reduce unemployment, on the lines of those proposed by the Secretary of State for Employment and others; further jobs should be generated, and useful assets created, by increasing capital investment in the public sector and by expenditure to stimulate investment in the private sector. If people were convinced that the Government was taking a major and constructive initiative to tackle these problems, they might well be prepared to accept some sacrifices to ensure that the objectives were achieved.

e. It was suggested that people might be prepared to accept a severe limitation, or even a freeze, on pay increases, if it could be shown to provide resources for increased investment and special employment measures. If there were any question of limiting the uprating of social benefits, that would surely need to be accompanied by some such limitations on incomes. On the other hand, while it was clearly desirable to aim for and encourage low pay increases, it was unrealistic to think in terms of a wage freeze or of increases limited to 1 or 2 percentage points. Indeed, such limitations could be positively damaging if they were to depress demand for goods and services or to lead to any sharp escalation of bids for pay increases either immediately before or after the period of pay limitation. It was very doubtful whether the approach, discussed in the Annex to C(81) 37, whereby some particular groups might accept a trade-off between pay and capital investment in their sector, was realistic. There was no reason, for example, why doctors or nurses should accept relatively low pay awards in order to finance the construction of hospitals.

f. In addition to implementing in full in the next Budget Rooker-Wise increases in personal tax thresholds, there was also a case for restoring the benefits lost from the abatement of such increases in previous Budgets. On the other hand, it was for question whether priority should be given to tax reductions to the extent proposed by the Chancellor of the Exchequer. The assertion that tax reductions were a better way of stimulating employment than additional public expenditure was open to question. As the CPRS had suggested, the Cabinet needed more information on the employment implications of particular tax and expenditure options, if they were to select the approach which offered the best prospects of dealing with unemployment.

g. Given the present estimate of additional bids of £6½ billion in 1982-83, it would be a herculean task to contain public expenditure totals to the levels in Cmnd 8175, let alone to reduce

SECRET

SECRET

them further. It was unrealistic to look for yet further cuts on those programmes which had already borne the brunt of the succession of previous exercises to cut expenditure; the defence budget had already been decided in volume terms; there would be major political difficulties in any attempt to limit upratings in social security and unemployment benefits; and there were strong pressures for further expenditure on the law and order programmes, particularly the prison service, and to deal with the aftermath of the recent riots. It would be important to reduce the major overrun of £2½ billion on the nationalised industries' EFLs, but at a time of recession some overrun was to be expected. It had generally to be recognised that further cuts in public expenditure would be damaging to employment prospects and to private sector industry. It seemed unrealistic to look for a declining PSBR, as a proportion of GDP, at a time of economic recession.

THE PRIME MINISTER, summing up the discussion, said that, before reaching a view on the balance between taxation and public expenditure objectives, the Cabinet wished the Chancellor of the Exchequer to present them with a fuller evaluation of the options than in C(81) 37. In particular, they wanted more information on the employment implications of particular tax and expenditure options; a fuller assessment of the realism of looking for reductions in public expenditure to the levels assumed in Cmnd 8175, or below; more information on the make-up of the present additional bids in 1982-83 of £6½ billion; and an indication of the Chancellor of the Exchequer's present assumptions on the level of the PSBR in relation to GDP this year and next. In further discussion, it would be necessary to weigh the possible benefits of further expenditure on capital investment, and the consequences of not reducing public expenditure totals to at least Cmnd 8175 levels, against the risks and consequences, not only to the Government's broad objectives but also to confidence in the currency, of any departure from the medium-term financial strategy; in particular, it was essential to recognise the impact of any further increase in inflation on those whose savings and income were not protected by index-linking.

The Cabinet -

1. Invited the Chancellor of the Exchequer to circulate a further memorandum on the factors relevant to decisions about public expenditure in 1982-83 and later years.
2. Agreed to resume their discussion of the 1981 Public Expenditure Survey when that memorandum was available.

SECRET

SECRET

3. Agreed to resume consideration of the memoranda by the Chief Secretary, Treasury, and the Secretary of State for the Environment at a later meeting.

Cabinet Office

27 July 1981

SECRET

Ind.

MOST CONFIDENTIAL RECORD ✓

SUBJECT

Ce (81) 34 cones

29 October 1981

CONFIDENTIALITY OF CABINET PROCEEDINGS.

No.	Contents	Date

MOST CONFIDENTIAL RECORD
TO
CC(81) 34th CONCLUSIONS

Thursday 29 October 1981

CONFIDENTIALITY
OF CABINET
PROCEEDINGS

Previous
Reference:
CC(81) 24th
Conclusions

Before the Cabinet proceeded to the order of the day, THE PRIME MINISTER drew attention to the reports in the previous week's Press and broadcasting media about the proceedings at the meeting of the Cabinet held on Tuesday 20 October. She recalled that at the conclusion of the previous week's discussion of the economic situation and public expenditure it had been agreed that nothing should be said to the Press other than that discussions would continue (including bilateral discussions between Departmental Ministers and the Treasury) on levels of public expenditure for 1982-83 and subsequent years. It had been pointed out that any unauthorised disclosure of the proceedings in more detail could affect financial markets - as in the event it had - and the outcome of the by-election in Croydon. Despite that agreement, full reports had appeared, in the first instance in Independent Television News on the evening of the day on which the meeting had been held, then in The Times the following morning, and subsequently in other newspapers. Certain aspects of what had been published could have come only from someone who was present at the meeting. This was not the first occasion on which there had been damaging breaches of the confidentiality of Cabinet proceedings. The Cabinet should understand the implications. If what was said inside the Cabinet Room was to be systematically disclosed outside it, the time would come when members of Cabinet would not feel able to speak their minds freely; the Cabinet would cease to be a gathering in which major issues of policy could be discussed, and more resort would have to be had to discussion in smaller groups. If any member of the Cabinet was knowingly engaged in activities which could result in such disclosures to the Press, the only honourable course was for him to resign.

THE FOREIGN AND COMMONWEALTH SECRETARY, supporting the Prime Minister, said that Ministers must be able to disagree in Cabinet and reach compromises among themselves without having to be concerned about the risk that the proceedings would be widely reported in public. If that could not be the case, it put all members of the Cabinet in an impossible position, and undermined the confidence which should subsist among Cabinet colleagues. He recalled that at the previous meeting he had specifically suggested that Ministers should not even tell people in their own Departments or Private Offices what had passed.

In discussion there was general support for what had been said by the reports that had appeared. It was impossible to exaggerate the damage done in markets, in the Croydon by-election and to the morale of the Government's supporters in the House of Commons. There was no doubt that the reports of dissension and division in the Cabinet had had a damaging effect on the morale of Party workers in the Croydon by-election and of the Government's supporters up and down the country. The Cabinet faced the prospect of difficult discussions and decisions in the coming months, particularly in the economic field; they must be free to discuss these matters and to reach conclusions, without the risk of unauthorised disclosures which would diminish the effects which the decisions were intended to have. The danger was not just of direct disclosures to the Press. It was clear that members of the Press talked around widely, with a view to gleaning information not only from members of the Cabinet themselves but also from others to whom members of the Cabinet had talked about the proceedings, as they thought in confidence. As a result of this process, much of what was reported was at third or fourth hand, and the stories which appeared in the Press were not only damaging but also distorted.

THE PRIME MINISTER, summing up the discussion, said that it must be the general hope and wish of the Cabinet that the kind of thing which had happened after the previous meeting should not happen again. If it recurred, the consequences for the future conduct of business would be both considerable and regrettable.

The Cabinet -

Took note.

Cabinet Office

4 November 1981

