CABINET

THE "PAUSE" AND INCREASES IN WAGES AND SALARIES

Memorandum by the Chancellor of the Exchequer

1. The Government has asked for a pause in the increases of wages and salaries generally. We have said that in those areas for which we are directly responsible we intend to discharge our duty to give a lead in restraint, and that (subject to meeting commitments already entered into) we shall achieve a pause in our own capacity as an employer. We have asked that the same policy shall be adopted elsewhere in the public sector and also in the private sector, in the confident expectation that if we do our part other employers will not be backward in doing theirs.

2. The purpose of this pause is dual: to give a breathing space for productivity to catch up and to mark the beginning of a long-term policy for ensuring a sensible relationship between increases in incomes of all sorts and increases in productivity.

3. The length of the pause has not been defined and it is impolitic to define it precisely. What I had in mind was that there should be no wage increases until the productivity record for 1961 could be examined, and not then unless the record warranted them. By that time, I would hope to have made some progress over methods of carrying out the purpose set out in paragraph 2.

4. Unless we can secure the pause in the employments we directly control, in particular the Civil Service (non-industrial and industrial) and the National Health Service, we cannot expect that it will be secured elsewhere. It is therefore necessary to decide what needs to be done to ensure that we do achieve a pause where we are directly responsible. We cannot assume that it will be achieved by exhortation. No reliance can be placed on the unions exercising restraint and the root question is, what should be done about the arbitration arrangements which normally apply in these fields. No reliance can be placed on arbitrators securing the pause for us: indeed it can be argued that it would be harmful to the future of the arbitration machinery (which we must assume to be part of the long-term policy) for arbitrators now to appear to be the tools of the Government. Moreover unless we can take some steps to control arbitration we shall be in danger of discriminating against those who have no right to go to arbitration: that is, not only the teachers but also, for example, the Armed Forces. The Appendix to this paper describes the arbitration arrangements in the Civil Service and the National Health Service and shows how far control of arbitration would involve breaches of agreements made or undertakings given by the Government of the day. It will be seen that technically the National Health Service position is not quite on all fours with that of the Civil Service. But I think there is no doubt that we should treat the National Health Service in this respect in the same way as we treat the Civil Service, and that we are in a position to do so.
5. Three possible courses have been suggested:

(i) To continue to allow access to arbitration, to wait and see what happens, being prepared but not saying so in advance, to reject awards or to defer putting them into effect;

(ii) To suspend arbitration (and negotiations) for a period.

(iii) To allow the negotiating machinery to continue to function, leading in some cases to negotiated settlements with unspecified forward dates; and to announce that while access to arbitration will continue the Government intends to control the timing, and if necessary the stages, of the implementation of any increases awarded.

All these courses will provoke a storm. In fact the pause cannot be secured without a storm.

6. Course (i) would rouse it is said the wrath not only of the unions, but also of the arbitrators. The Government would be accused of duplicity, for if it allows the existing machinery to work apparently as usual, it will be assumed that the Government intends that the arrangements stand in their entirety.

7. Course (ii) - the suspension of arbitration would certainly secure the pause. It would mean announcing the suspension of the Whitley Agreement on Arbitration in the Civil Service. It would be regarded as introducing not a pause but a complete freeze, a term with unfortunate connotations and one which we have been at pains to avoid. Even in the days of the Labour Government's wage freeze there was no interference with arbitration.

If arbitration were suspended it would follow that negotiations (unless any were regarded as existing commitments) would be suspended too. From the Official Side's point of view there would be no point in such negotiations and in any event the staff representatives would almost certainly refuse to negotiate. If negotiations were suspended in the arbitrable sector it would follow that there could be no negotiations in those areas where arbitration is not applicable - in particular the forthcoming Review of the Pay of the Armed Forces would have to be suspended. It would be intolerable to conduct such a review if there were a freeze elsewhere.

There would be great unrest and maybe strikes, even in the Civil Service. It is likely that no only would the unions be incensed, but the arbitrators too. If this were so there would be serious danger of long-term damage to the machinery.

Moreover when arbitration was permitted again there would be an unmanageable flood of claims fought with great bitterness and arbitrated on by disgruntled arbitrators.

8. Course (iii) - the continued function of the machinery subject only to the removal of operative date from the scope of arbitration - would also be a breach of existing agreements and understandings. But it has the advantage of maintaining the machinery intact; and as compared with course (i) it has the advantage of honesty - both the unions and the arbitrators
would know where they stood. It also has the advantage of flexibility and would permit the immediate implementation of awards on cases which it was decided came into the category of existing commitments. It would seem to be more in accordance with the idea of a pause - as distinct from a freeze - and might be more acceptable to public opinion generally than the complete suspension of arbitration.

It has of course the disadvantage that we should be building up a batch of post-dated cheques. But in my view this is a less serious disadvantage than the disadvantage under course (ii) of build up a backlog of claims and negotiations themselves.

9. An early decision is required as, meanwhile, no answers can be given to the increasingly insistent questions of the unions and current negotiations are being conducted in an atmosphere of complete unreality.

10. If course (iii) were adopted for the Civil Service, then the Minister of Labour would be able more easily to take the same line, as he proposes to do, with Wages Boards and Wages Councils.

11. Local authorities and the nationalised industries might be persuaded to follow suit.

12. I should perhaps say a word about commitments already entered into which, in my statement, I said should be met. The clearest cases are where pay settlements have already been reached in negotiation or where there have been arbitration proceedings and awards have already been made or are awaited. An example is the recent award to professional Post Office Engineers with retrospective to 1st August, 1958, costing £1.5 millions this year. Another is the awaited award on Post Office sales representatives. All these must be implemented forthwith with whatever operative date has been agreed or awarded. I would also regard as a commitment a case where an offer has been made and rejected and a claim is on its way to arbitration. Such a case is the offer of 5½ per cent from 1st January last which has been made to the Post Office Engineering Union. (This Union represents the non-professional engineering workers.) In my view this case, on which terms of reference have been agreed but not yet forwarded to the Ministry of Labour should now go to arbitration and any award up to the offered 5½ per cent should be put into effect immediately. If the award exceeds 5½ per cent there will be no Government commitment in respect of the excess and its implementation should, strictly speaking, be deferred during the pause; but this aspect and the terms on which the Postmaster-General should announce his agreement to go to arbitration despite the need for a pause need very careful and separate consideration.

13. There may be other negotiations which should be regarded as commitments and decisions will have to be taken on them as they come up. We are likely in this connection to be faced with a very difficult problem over the three scientific classes of the Civil Service. Negotiations are now going on on the Pay Research Unit survey of these classes which is the last big survey of the first round of investigations by the Unit following the Priestley Report. I shall have to consider very
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carefully to what extent the Government are committed to make offers of increased pay on the basis of the survey. Another difficult issue will arise over pay claims by Government industrial staff where it will be argued that the Government is committed inter alia to a review of certain rates in October to bring them in line with rates paid outside.

14. Decisions are urgently required as it is important that there should be an early announcement of the Government's intentions. As Parliament is about to rise, the Government's decisions would be best promulgated by letters addressed to the various bodies which represent the Civil Service and the National Health Service in pay negotiations. The letters would at the same time be released to the Press. Steps would also have to be taken to bring the Government's decisions specifically to the attention of the nationalised corporations and local authorities and to seek their agreement to the adoption of similar policies.

S. L.

Treasury Chambers, S.W.1.

2nd August, 1951

M. A. A.
APPENDIX

ARBITRATION IN THE PUBLIC SECTOR

The Non-Industrial Civil Service

1. Under a Whitley Council Agreement of 1925 there is provision for compulsory arbitration on the pay of grades up to a certain level, at present those with scales not exceeding about £2,400 a year. In 1925 the Government also gave a pledge that "subject to the over-riding authority of Parliament" it would give effect to the awards of the Civil Service Arbitration Tribunal.

2. Two of the alternative courses suggested in this paper are that the Government should decide either:

(i) To suspend arbitration, or

(ii) In effect to announce that for the time being the operative date of any increases in pay awarded by the Tribunal will not be arbitrable.

3. There is no provision in the Agreement itself, or elsewhere, for suspension of this system of compulsory arbitration; and the Staff Side would undoubtedly regard a decision to suspend arbitration as a unilateral repudiation of the Agreement.

4. If the Government decided, for a time, that the operative date of any pay increases should cease to be arbitrable the Staff Side would undoubtedly regard this as a unilateral variation, and perhaps repudiation, of the Agreement. But this course of action would no doubt be less repugnant to the Staff Side than a complete suspension of arbitration, and it could be argued that it did not amount to a repudiation of the basis on which the Government of the day originally authorised the 1925 Agreement. The Government has always reserved to itself the right to refuse arbitration "on grounds of policy". Over the years this reserved power has been invoked on only five occasions - in relation to claims for equal pay for women, family allowances, cost of living bonuses, and (in war-time) balance of civil pay - on the grounds that these were matters on which the Government had already announced its decision, or was considering as a matter of high Government policy. These were refusals to arbitrate at all and could not be held to constitute direct precedents for a refusal to arbitrate on the operative date of any pay increases. But it could be maintained that as the Government have decided as a matter of high Government policy that there had to be "a pause" in increases of wages and salaries it was entirely right that they should use the power which they had reserved to themselves to decide that a particular aspect of wage and salary claims should be for the time being inarbitrable.

National Health Service

The National Health Service (Amendment) Act of 1949 provides that any difference or dispute about pay or conditions of service of persons employed or engaged in the provision of service under the Acts shall be a dispute within the meaning of the Industrial Courts Act, 1919. This means that the consent of both sides of the Health Service Whitley Councils is
required before there can be arbitration. Thus there is no right to compulsory arbitration though in practice consent has not been withheld by the management sides unless public policy is involved. Also the Minister can reject a Whitley Agreement based upon an arbitration award. But since the management sides include only a minority of Ministry officials, they could, if they were not amenable to persuasion by the Minister, allow the staff sides to go to arbitration, whether the Minister liked it or not; and a rejection by the Minister, for the first time, of an arbitration award would undoubtedly create a great storm.

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WAGES POLICY

Note by the Chancellor of the Exchequer

August, 1961

A draft of a passage for inclusion in a communication from Norman Cross, as Chairman of the Civil Service National Whitley Council, to the Staff Side of the Council. A similar communication would be sent to the Trade Union Side of the Joint Consultative Committee - the equivalent for industrial civil servants of the Whitley Council for non-industrial civil servants.

Treasury Chambers, S.W.1.