

MR SCHOLAR

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cc Mr Mount

PAY ARRANGEMENTS FOR THE CIVIL SERVICE

The time is approaching when Ministers have to finally decide whether they do want a Megaw-based system for pay negotiations, and on what terms; and if not, how they can find an honourable way out of their commitment to have one. This subject will arise in Monday's meeting on this subject so I am rehearsing some basic arguments below.

The advantages which could be claimed for a Megaw system is that it offers a degree of comparability sufficient to reassure civil servants that they will be looked after, but with sufficient flexibility to allow the Government to take managerial factors - affordability, and the need to recruit, retain and motivate - into account. It could be argued that, in comparison with unconstrained collective bargaining, a Megaw system offers improved industrial relations and greater public confidence in the Government's dealings with its employees. Moreover, it would do so at little or no extra cost, because the Government - according to Sir Geoffrey Howe's evidence to Megaw - would not want Civil Service pay to fall behind the private sector in any case. A Megaw-based system would also avoid wild fluctuations in settlements (several years of falling behind followed by large, inflationary, catching-up settlements.)

The disadvantages of such a system are

1) That by building in comparability into its own system the Government is setting a bad example to the other employers. It is difficult to see how the average level of settlements in the economy can fall, or fall quickly enough, if all employers negotiate primarily on the basis of comparability. Settlements will fall if employers negotiate on the basis of their capacity to pay (low, in many cases) and ability to recruit (easy, in most) rather than on a follow-my-leader basis.

2) Megaw will constrain the Government more than the unions. The Government has secured settlements lower than the Lower Quartile

in the last three rounds; it could not do so under Megaw. Even Lower Quartile settlements would be difficult to achieve; union leaders would dig in hard rather than have to report to their members that they had secured only the very minimum possible under the new arrangements. Conversely, the unions would not be effectively constrained since they cannot realistically expect, under this Government at least, to secure settlements greater than the Upper Quartile.

→ 3) Although the Megaw system provides a degree of flexibility to accommodate managerial factors, in practice, the recruitment, retention and motivation factors are less visible than pay comparisons. The latter may for this reason tend to dominate negotiations, rather than the former.

My own view is that the disadvantages for the Government outweigh the advantages of a quieter life; it is not my impression that a Megaw system would improve industrial relations in the Civil Service sufficiently to improve Civil Service performance or affect voting behaviour. Civil servants naturally hanker for the old pay research regime which allowed them to haggle over the comparability data and then to secure settlements equal to the private sector upper quartile level. But given that this is denied them, I doubt myself whether the majority would be significantly reassured by Megaw arrangements. The Civil Service unions themselves seem very suspicious of them. Thus Megaw might achieve, at best, modest industrial relations gains, at some cost in terms of the paybill and the demonstration effect on the rest of the economy.

NICHOLAS OWEN
