UK Government Pay Restraint Strategy in the Public Sector: The Experience Under Cash Limits 1979-83

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Summary

This thesis focuses on a novel form of UK public sector pay restraint strategy: the indirect control of pay through the limitation of the budgets and expenditure of authorities by means of cash limits and other devices. The 1979-83 period is covered.

Four issues are investigated on the basis of archival work, interviews and quantitative data. Since the cash limits pay restraint policy is a relatively new phenomenon, it has received little academic attention. Hence, this investigation makes a contribution to knowledge in respect of all four issues.

First, the reasons for Government intervention in pay determination are analysed. The role of the Government's price inflation and public expenditure objectives is highlighted, as are the sources of wage inflation in the economic and political context where finance is determined; in the institutional environment; and in strategic influences.

Second, the style of the policy design and policy support is analysed and distinguished from past forms of strategy. Attention is drawn to the greater flexibility of the cash limits policy, and its imposition rather than agreement.

Third, the counter-inflationary performance of the strategy is investigated. A statistical and econometric assessment shows the policy had as great an effect as the most successful incomes policies. The explanation is found to lie in the economic and political markets which determined the policy constraints and other financial exigencies; a less inflationary institutional setting; and the acquiescence of negotiators.

Fourth, the theoretical and practical implications are drawn out. A theoretical model of pay determination under cash limits is derived from the findings. On a practical note, the contrasting long run experience of incomes policies and cash limits is explained in terms of policy design and support. The likely counter-inflationary effects of variants of the cash limits policy approach and of alternative strategies are assessed.

To my parents

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DECLARATION

The material presented in this thesis was researched by myself for the purpose of the dissertation. However, a summary of a few of my findings were included in two articles:

1. R.G. Bevan, K.F. Sisson, and P.K. Way, 'Cash Limits and Public Sector Pay', Public Administration, Winter, 1981, pp. 379-398.
2. P.K. Way, 'Public Sector Pay Bargaining Under Government Financial Restrictions in the U.S. and UK', Proceedings of the Thirty-Eighth Annual Meeting, December 1985, IRRA 1986, pp. 260-263.

List of Abbreviations

ASQ	Administrative Science Quarterly
ABS	Association of Broadcasting and Allied Staffs
ACAS	Advisory, Conciliation, and Arbitration Committee
ADC	Association of District Councils
AEA	Atomic Energy Authority
AEI	Average Earnings Index
AER	American Economic Review
AMA	Association of Metropolitan Authorities
AFRB	Armed Forces Review Body
APEX	Analysis of Public Expenditure
App.	Appendix
APTC	Administrative, Professional, Technical and Clerical
ASLEF	Amalgamated Society of Locomotive Engineers and Firemen
ASTMS	Association of Scientific, Technical and Managerial Staffs
AUEW	Amalgamated Union of Engineering Workers
AUT	Association of University Teachers
Av.	Average
BAA	British Airports Authority
BA(B)	British Airways (Board)
BAe	British Aerospace
BALPA	British Airline Pilots' Association
BBC	British Broadcasting Corporation
BGC	British Gas Corporation
BJIR	British Journal of Industrial Relations

BMA	British Medical Association
BR(B)	British Railways (Board)
BRS	British Road Services
BS	British Shipbuilders
BSC	British Steel Corporation
BT	British Telecom
BTDB	British Transport Docks Board
BTH	British Transport Hotels
BWB	British Waterways Board
CAC	Central Arbitration Committee
CBI	Confederation of British Industry
CCLGF	Consultative Council for Local Government Finance
CCSU	Council of Civil Service Unions
CEGB	Central Electricity Generating Board
CESA	Campaign for Economic and Social Advance
CG	Central Government
Chap., Ch.	Chapter
CIPFA	Chartered Institute of Public Finance and Accountancy
CIR	Commission on Industrial Relations
CJE	Cambridge Journal of Economics
CL	Cash Limits
CMA	Communication Managers Association
Cmnd.	Command Number
COHSE	Confederation of Health Service Employees
COI	Central Office of Information
Col./Cols.	Column(s)

CPPI	Council for Prices, Productivity and Incomes
CPSA	Civil and Public Services Association
CRD	Conservative Research Department
CSD	Civil Service Department
CSE	Conference of Socialist Economists
CSEU	Confederation of Shipbuilding and Engineering Unions
CSPRU	Civil Service Pay Research Unit
CSU	Civil Service Union
CUP	Cambridge University Press
CVCP	Committee of Vice-Chancellors and Principals
DDRB	Doctors' and Dentists' Review Body
DE	Department of Employment
Deb.	Debates
Dept.	Department
DES	Department of Education and Science
DHSS	Department of Health and Social Security
DOE	Department of the Enviroment
EC	Electricity Council; Economic Committee
ECC	Electricity Consumers' Council
ed./eds.	editor(s)
EEC	European Economic Community
EEF	Engineering Employers' Federation
EETPU	Electrical, Electronic, Telecommunication and Plumbing Union
EFL	External Financing Limits
EJ	Economic Journal

EMA	Engineers' and Managers' Association
Eng.	England
ESI	Electric Supply Industry
esp.	especially
ESRC	Economic and Social Research Council
et. al.	et alia (and otners)
excl.	excluding
FBU	Fire Brigades Union
FDA	First Division Association
ff	and following pages
FGPC	Finance and General Purposes Committee
Fed.	Federation
FIS	Financial Information System
FMI	Financial Management Initiative
FSBR	Financial Statement and Budget Report
FY	Financial Year
GDP	Gross Domestic Product
GLC	Greater London Council
GMWU	National Union of General and Municipal Workers
Govt.	Government
GRE	Grant Related Expenditure
GWA	Giga-Watt Hours
HC	House of Commons
HL	House of Lords
HMSO	Her Majesty's Stationary Office
HSC	Health Services Committee
Ibid	ibidem (the same)

IDS	Incomes Data Services
IEA	Institute of Economic Affairs
ILIR	Institute of Labor and Industrial Relations
IMF	International Monetary Fund
incl.	including
Ind.	Industry
IPCS	Institution of Professional Civil Servants
IPM	Institute of Personnel Management
IR	Industrial Relations
IRJ	Industrial Relations Journal
IRRA	Industrial Relations Research Association
IRRR	Industrial Relations Review and Report
ISTC	Iron and Steel Trades Confederation
JLE	Journal of Law and Economics
JNC	Joint Negotiating Committee
Jt.	Joint
Km.	Kilometer
LA	Local Authorities
LACSAB	Local Authorities' Conditions of Service Advisory Board
LBR	Lloyds' Bank Review
LEA	Local Education Authority
LGC	Local Government Committee
LGCC	Local Government Coordinating Committee
Ltd.	Limited
LT(E)	London Transport (Executive)
m.	million

MAFF	Ministry of Agriculture, Fisheries and Food
MBC	Metropolitan Borough Council
MC	Monopolies Commission
MDW	Measured Day Work
MGT.	Management
Mk.	Mark
MINIS	Management Information System for Ministers
MIT	Massachusetts Institute of Technology
MLH	Minimum List Heading
MLSO	Medical Laboratory Scientific Officer
MMC	Monopolies and Mergers Commission
MoD	Ministry of Defence
MP	Member of Parliament
m.t.	millions of tons
MUP	Manchester University Press
N.	Northern
N. A.	Not Available/Applicable
NAFO	National Association of Fire Officers
NALGO	National And Local Government Officer's Association
NAS(/UWT)	National Association of Schoolmasters (/Union of Women Teachers)
Nat.	National
NATFHE	National Association of Teachers in Further and Higher Education
NBC	National Bus Corporation
NBER	National Bureau of Economic Research
NBPI	National Board for Prices and Incomes
NC	National Council

NCB	National Coal Board
NCOI	National Council for the Omnibus Industry
n. d.	no date
NEB	National Enterprise Board
NEDC	National Economic Development Council
NEDO	National Economic Development Office
NES	New Earnings Survey
NFC	National Freight Corporation
NHS	National Health Service
NHSIR	National Health Service Industrial Relations
NIC	National Industries Committee
NICG	National Industries' Chairmen's Group
NIER	National Institute of Economic Research
NJC	National Joint Council
NJIC	National Joint Industrial Council
NLF	National Loans Fund
No.	Number
NOP	National Opinion Poll
NSH(E)B	North of Scotland Hydro-Electric Board
NTCC	National Transport Consumers' Council
NTS	New Towns Staff
NUPE	National Union of Public Employees
NUM	National Union of Mineworkers
NUR	National Union of Railwaymen
NUS	National Union of Seamen
NUT	National Union of Teachers
NW	Northwest

NCB	National Coal Board
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NUR	National Union of Railwaymen
NUS	National Union of Seamen
NUT	National Union of Teachers
NW	Northwest

PSI	Policy Studies Institute
PT(A),(B)	Professional and Technical A and B Committees
PTE	Passenger Transport Executive
Prof.	Professional
Q	Question
RCN	Royal College of Nursing
Reps.	Representatives
RER	Rates and Expenditure Returns
RIPA	Royal Institute of Public Administration
RPI	Retail Price Index
RSG	Rate Support Grant
RSNT	Railway Staffs National Tribunal
s./ss.	section(s)
SCPC	Standing Commission on Pay Comparability
SCPS	Society of Civil and Public Servants
SIC	Standard Industrial Classification
SJPE	Scottish Journal of Political Economy
SSEB	South of Scotland Electricity Board
STE	Society of Telecom Engineers
STG	Scottish Transport Group
Subcomm.	Subcommittee
TCSC	Treasury and Civil Service Committee
TGWU	Transport and General Workers' Union
tonne/km	tonne per kilometer
TPI	Tax and Price Index
TSRB	Top Salaries Review Body
TSSA	Transport Salaried Staffs Association

TU	Trade Union
TUC	Trades Union Congress
UCATT	Union of Construction Allied Trades and Technicians
UCNS	Universities' Committee for Non-Teaching Staffs
UCW	Union of Communication Workers
UGC	University Grants Committee
UK	United Kingdom
unemp.	unemployment
Univ. / Univs.	University / Universities
UPW	Union of Post Office Workers
US / USA	United States (of America)
Vol.	Volume
WA	Written Answer

PART 1

INTRODUCTION

Chapter 1

Introduction

The election of the Conservative Party to power in May 1979 heralded far-reaching changes of State policy in many spheres of economic and social life in the United Kingdom (UK).[1] The field of public sector pay was no exception. After direct regulation of pay increases by the outgoing, Labour, Government, a fresh strategy was announced by the incoming Conservative administration:

> We intend to avoid detailed interference with the pay bargaining process. Our task--and it is vital--will be to create the right climate, particularly the disciplined financial conditions, within which the bargaining process must take place. Of course, the Government will necessarily be more closely concerned with pay bargaining in the public sector where they are directly involved, either as employer or as the provider of a large part of any settlement. For it is essential here--as it is for similar reasons in the private sector--to reconcile the consequences of pay bargaining with the resources that are available, which are necessarily not unlimited.2

Thus the new strategy was to impose financial constraints on public sector authorities in order to induce pay increases that were satisfactory to the Government. To this end, a welter of controls were applied to the availability of finance for authorities' expenditure, and to the level and composition of expenditure itself. The most notable instrument was cash limits. They represented planned ceilings on the amount of money that the Government proposed to spend on blocks of services during the financial year.[3]

In sum, there operated what can be termed a 'financial pay restraint policy', characterised by the regulation of the incomes and expenditures of authorities in an attempt to curb pay rises. It is not to be confused with a financial policy in the conventional sense, which relates purely to measures directed at financial variables rather than at pay increases. The policy might also be called a 'cash limits pay restraint strategy', after the major policy instrument used.

This new financial pay restraint strategy in the public sector, as pursued by the Conservative Government during their 1979-1983 period of office, provides the focus for this thesis.

The present chapter introduces the four issues that are analysed. Each is outlined and its significance is explained. The structure of the thesis is then mapped out.

1. Four Issues

In investigating the new mode of pay control in the public sector, four issues receive attention. They concern the reasons for intervention in public sector pay determination in this period; the characteristics of the State's approach; the performance of the policies adopted; and, finally, the implications of the operation of the strategy for State strategies towards public sector pay.

While similar questions can be asked regarding any period of pay restraint, the issues take on particular significance in the context of the novel and distinctive approach of the financial pay restraint strategy.

1.1 Issue 1: The stimuli to intervention in public sector pay determination in 1979.

Financial pay restraint policies have a long genealogy. Since the Second World War the UK has seen a succession of pay control strategies of varying kinds in both the public and private sectors. They have become so much a part of the economic policy landscape that one of the foremost industrial relations academics has contended:

> The relevant question therefore is not whether Britain will soon see the last of incomes policy, but whether the future will bring another series of short-lived policies or one lasting policy.4.

While incomes policy may seem inevitable for one reason or another, it is still pertinent to inquire into the precise rationale for a particular pay restraint strategy, for history demonstrates that the reasons for intervention tend to vary from period to period. In the first place, while wage rises have been deemed 'excessive' in each policy period, the causes of the 'excess' pressure have varied over time. On occasions wage-inflationary forces appeared to emanate from the labour market itself, from structural and institutional conditions, as well as from real wage expectations.[5] At other times, given intensities of pay pressures had greater inflationary implications owing to other economic events, such as the 1967 devaluation, and supply shocks like the 1973-74 oil price rise.[6]

Furthermore, the rationale for intervention has varied with the assumptions of policymakers regarding the effects of wage increases on price inflation. For instance, up to the early 1960s, pay rises were primarily argued to warrant control because they were thought to reflect a high pressure of demand.[7] During the remainder of the 1960s, and much of the 1970s, pay increases were believed to require control because they were said to be a major contributor to cost-induced inflation.[8]

Finally, although price inflation has naturally tended to be a dominant primary consideration throughout the postwar period, ultimate concerns have changed.[9] The indirect concern prompting pay control until 1971 was with the balance of payments under a fixed exchange rate regime. In the early 1960s this was supplemented with a concern for economic growth. After 1971, in contrast, the emphasis turned to the avoidance of unemployment caused by uncompetitive prices.

In view of the shifting grounds for the State's forays into public sector pay determination, this thesis first focuses on the factors encouraging the Conservative Government to embark on pay control in mid-1979. Apart from the intrinsic merit of this issue, the inquiry is also of is still pertinent to inquire into the precise rationale for a particular pay restraint strategy, for history demonstrates that the reasons for intervention tend to vary from period to period. In the first place, while wage rises have been deemed 'excessive' in each policy period, the causes of the 'excess' pressure have varied over time. On occasions wage-inflationary forces appeared to emanate from the labour market itself, from structural and institutional conditions, as well as from real wage expectations.[5] At other times, given intensities of pay pressures had greater inflationary implications owing to other economic events, such as the 1967 devaluation, and supply shocks like the 1973-74 oil price rise.[6]

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In view of the shifting grounds for the State's forays into public sector pay determination, this thesis first focuses on the factors encouraging the Conservative Government to embark on pay control in mid-1979. Apart from the intrinsic merit of this issue, the inquiry is also of benefit to the study of other issues regarding financial pay restraint policies. It informs the second issue, the understanding of the State's approach to pay control, since, obviously, the rationale for restraint can influence the design of the strategy. For example, whether the model of inflation emphasises demand or cost factors can affect whether the policy is of a demand-management character or is more direct in orientation. In addition, in relation to the third issue, an awareness of the State's reasons for adopting a pay restraint strategy aids the explanation of the counter-inflationary performance of the policy: attention can be drawn to the ways in which the policy succeeded in restraining the forces that were identified as inflationary in mid-1979.

1.2 Issue 2: The form of the financial pay restraint strategy

The appropriate approach to pay control is a lively issue. The early 1970s, for example, saw much debate over technical details. The incomes policy discussions between the Heath Administration, the Trades Union Congress (TUC), and, to a lesser extent, the Confederation of British Industry (CBI), at Chequers and in Downing Street in 1972 revealed major differences of opinion. The Government was anxious to formulate a policy that would control pay, by taking account of the wage structure, union objectives and power centres. The TUC, on the other hand, was concerned to improve the position of the low-paid, and wanted tough price controls.[10] The Government had the final say, but the style of Stages 2 and 3 in 1973-74 showed a degree of compromise. Joint flat-rate and percentage limits on bargaining unit pay bill increases were set, namely £1 per week plus 4 per cent in Stage 2, and 7 percent or £2.25 per head per week in Stage 3, subject to carefully specified exceptions. Both policies were statutorily enforced.[11] Thus the Government ensured compliance but encouraged the redistribution of income to appease the TUC.

The issue of strategy style continues to be extremely topical. As indicated in the introduction, the post-1979 strategy was sharply different from previous policies. Whereas ceilings had been put on the pay rises of individuals or bargaining groups throughout Phases 1 to 4 (1975-79),[12] the financial pay restraint strategy sought to control the availability and disbursement of authorities' finance.

The second task of the thesis is, therefore, to identify and explain the characteristics and distinctiveness of the State's strategy of financial pay restraint. Not only is the analysis of merit in itself, but also it facilitates the assessment of other issues. In connection with the impact of financial pay restraint policies, the morphology clarifies the policy components that, in conjunction with other factors, might have affected the outcome of pay determination. It also provides a framework for discussing some of the implications of the financial pay restraint experience for other variants of the strategy and alternative strategies.

1.3 Issue 3: The performance of the financial pay restraint policy

Pay restraint strategies may have a multiplicity of immediate objectives.[13] As their name implies, and as the discussion of the issue of the causes of intervention makes plain, the countering of inflation is always a major aim. In addition, on occasions, policies have aimed to redistribute income and increase labour market efficiency. Two considerations have prompted special help for the lower-paid. First, egalitarian desires for a narrower distribution of income have sometimes influenced policy design, as was the case in Stages 2 and 3 of the Heath Administration's strategy (1973-74).[14] A second motive has been that, in times of restricted real income growth, the higher paid can afford to take a bigger percentage share of the burden, due to the greater flexibility that their larger incomes give them. Phase 1 (1975-76) of the Labour Government's strategy was fashioned by this belief, for example.[15] Meantime, labour market objectives have generally been to raise productivity as in Stage 3 (1973-74) and Phases 3 and 4 (1977-79), or to stimulate the movement of labour to undermanned industries as in the late 1960s.[16]

In view of the economic and social importance of the objectives of pay restraint policies, an apposite question to ask is whether and why strategies achieved their objectives. Accordingly, this study assesses the extent and causes of the counter-inflationary effects of financial pay restraint policies. This is not to say that the financial pay restraint policies had no distributional and labour efficiency objectives. The differences in increases between groups facilitated by the State's policy were not wholly unconsciously determined.[17] It is also clear that an aim of the financial constraints imposed by the State on pay was to increase labour efficiency.[18] However, there is no doubt that the counter-inflationary objective, of the three, was the most important.[19] Although the performance is studied with reference to the effect on wage inflation, the equity and efficiency effects are introduced as explanations where they are germane.

The discussion of the performance of the financial pay restraint strategy is also of importance because it is fundamental to the conclusions. The implications for pay restraint policies in general and in particular are based on the analysis of the performance of the cash limits pay strategy.

1.4 Issue 4: The theoretical and policy implications of the operation of the financial pay restraint strategy

Investigations of specific pay restraint strategies from the point of view of their success in achieving their objectives reveal factors promoting and hindering desired outcomes. On the assumption of regularities in the relationship between negotiation outcomes and the independent explanatory variables--and there is no reason to suppose there are not--conclusions of a general nature can be drawn. This is a valuable undertaking, for, in this way, both academic and practical industrial relations can be advanced.

If the discipline of industrial relations is to progress, its paradigms, as applied to the subject area of industrial relations as a whole and to its constituent parts, have to be continually refined.[20] This may entail redefinition of the key variables and their interrelationships, or it may involve a different methodology or method. The mere accumulation of knowledge does not advance industrial relations as a discipline. It follows that the analysis of pay restraint strategies can contribute to industrial relations theory by yielding generalisations which can form a theoretical structure for subsequent investigations, until superseded by more up-to-date and accurate models.

For industrial relations to be advanced as a practical art, it is necessary that continual improvement be made in the notions of how the industrial relations world currently operates.[21] This applies whatever the identity and interests of the practitioner: all form strategies at least in part with regard to the form of empirical dynamics. For example, governments, in designing pay policies, have in mind a model of pay inflation, based, at least in part, on experience. Unions' pay negotiation strategies recognise the factors which can be employed to raise settlements, and they acknowledge constraining factors. The opposite applies to managements. This is not to claim that the State, employers and unions in practice acknowledge and use all research conclusions immediately. Nevertheless, the process of research and education no doubt influences ideas of practitioners, even if in a sporadic and diffuse manner.[22] It is worth recalling the words of Keynes:

> ... the ideas of economists and political philosophers... are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.23

Therefore, it seems legitimate to believe that the analysis of the cash limits pay restraint policy can contribute to the practice of industrial relations through using the generalisations to shed light on the potential of different strategies. Attention is concentrated on government strategies, given the driving interest behind the investigation is the counter-inflationary effect of the financial restraint strategy.

The focus on implications for strategies which have the reduction of wage inflation as the central objective is not supposed to imply that it is universally agreed that pay restraint is desirable. The debate is still open. There are differing views as to whether pay rises are a primary and root cause of inflation.[24] Further, attitudes towards pay restraint vary according to the distributional implications of the policy--for example, for the distribution of income between profits and wages, and between bargaining units.[25]

To fail to acknowledge this, unwittingly or otherwise, would be to implicitly give the study an ideological bias, owing to the non-neutrality of pay restraint.[26] This would be ethically reprehensible because citizens are not in possession of the full facts and cannot make informed judgements of the merits of pay restraint; in other words, they would be misled. Fox, in criticising the failure of pluralism to divulge details about power relations in the existing social order, makes a remark which is equally applicable here:

> If... there is any reason to believe that the participants are not cognisant of the facts, and that their aspirations and claims, and their responses to the aspirations and claims of others, are affected by this ignorance, then are there any legitimate grounds on which social scientists could consider it 'socially responsible' not to labour at emphasising these facts.27

Nevertheless, it is valid to study the implications for counter-inflationary policies because State pay restraint strategies are likely to persist, given continuing economic dislocation and the major role of wages in dominant models of the economy. Other models do exist, but they are unlikely to be taken up by the State.[28]

2. Thesis Structure

The thesis is divided into five parts: an introductory part followed by analyses of the four issues. The chapters forming each part vary in number and length, according to the necessary extent of discussion and the incidence of natural thematic breaks.

In addition to this chapter, Part I contains a second introductory chapter. After describing the general methodology adopted in the thesis the remainder of the chapter considers the design of the research. The bargaining units which were targets of the pay strategy, and which are therefore the focus of the investigation, are determined. The broad disciplinary approach is outlined and defended and the theory of pay determination that underlies the analysis of each issue is spelt out. Finally, the empirical research strategy and methods are adumbrated.

Part II of the thesis is devoted to the suggestion and amplification of the reasons for the State's intervention in public sector pay determination from 1979 to 1983. Chapter 3 first considers the influence of the Government's price inflation and public expenditure objectives. It then points to the inflationary conditions that existed in mid-1979 in the economic-political environment, the institutional context and negotiators' strategies.

Part III is concerned with the form of the financial pay restraint strategy. It examines the distinctiveness of the approach and ascertains why it was chosen. In Chapter 4 the key facets of pay control strategies in general are initially categorised. The style of the financial pay restraint policies of 1979-83 is then spelled out, using the categorisation as a descriptive framework. The central features of the strategy are compared with those of previous strategies, and the causes of the change in strategy orientation are explained.

The assessment and explanation of the performance of the financial pay restraint strategy appears in Part IV, covering Chapters 5 to 9 inclusive.

Chapter 5 is devoted to the statistical assessment of the strategy's performance. The pay increases gained by the subsectors of the public sector in the pay rounds between 1979 and 1983 are analysed, distinguishing the role of settlement increases and work-related rises, such as due to changes in overtime and output. The performance of the strategy is compared with that of previous efforts to control public sector pay. Finally, the changes in pay under cash limits are compared with estimates of pay rises that would have occurred in the absence of pay restraint policies.

The remainder of Part IV sets out to explain the counter-inflationary impact of the cash limits pay restraint strategy. Chapter 6 analyses the stringency of the financial constraints on authorities caused by the financial pay restraint policy and local financial circumstances in order to indicate the extent to which the freedom of pay negotiators was restricted. Central government, local authorities and public corporations are considered in turn. In each case, the constraints on the size and allocation of budgets of authorities are analysed. They are then explained in terms of the economic and political environment in which the authorities operate.

In Chapter 7, the role of institutional processes and structures in influencing pay determination is analysed. The impact of the internal organisation of management and unions is investigated, as are bargaining structure and pay determination procedures. Both stable characteristics and changing features are studied, in recognition of management and union strategies to change the institutional context.

The explanatory relevance of collective bargaining strategies, given financial and institutional constraints, is examined in Chapter 8. Reference is made to the pay criteria used by negotiators, the relative strategic, economic and political power of management and unions, and the politics of wage decisions.

Chapter 9 contains an econometric cross-section analysis of the causes of the impact of financial restrictions on pay determination during the period. Being quantitative, it complements the qualitative conclusions of Chapters 6 to 8. First of all, the equations are specified and the variables are operationalised given the data. The results are then presented and compared with those derived by other methods.

The fourth and final issue, the academic and practical implications for pay restraint strategies, is investigated in Part V. The tenth chapter draws up a tentative theory of the impact of financial pay restraint strategies from the research findings. The practical implications are also considered. The relative effectiveness of financial pay restraint policies vis-a-vis other past forms of strategy is examined on the basis of actual experience. In addition, the probable effects of different styles of financial pay restraint strategy are considered in the light of the theoretical model. The prospects for alternative strategies are also analysed in the light of the experience of pay determination under strategies of the financial variety. The thesis ends with a final conclusion concerning the outlook for financial pay restraint strategies.

Notes

1. The Right Approach to the Economy, Conservative Central Office, 1976; The Conservative Manifesto, Conservative Central Office, 1979.
2. HC Deb. Vol. 967, Col. 901, 22 May 1979.
3. Cash Limits on Public Expenditure, Cmnd. 6440, HMSO, 1976, para. 7.
4. H.A. Clegg, The Changing System of Industrial Relations in Great Britain, Blackwell 1979, p. 378.
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9. Consult the introductory statements in incomes policy White Papers in the postwar period.
10. TUC, The Chequers and Downing Street Talks, TUC 1972; TUC, TUC Report 1973, TUC 1973, pp. 274-76; Barnes and Reid, op. cit., p. 164.

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12. *The Attack on Inflation,* Cmnd. 6151, HMSO 1975; *The Attack on Inflation: The Second Year,* Cmnd. 6507, HMSO 1976; *The Attack on Inflation After 31 July 1977*, Cmnd. 6882, HMSO 1978; *Winning the Battle Against Inflation,* Cmnd. 7293, HMSO 1978.

13. For discussions, see, for instance, B. Towers, 'A Return to Incomes Policy?', *IRJ* March/April 1981, pp. 7-10; and *British Incomes Policy,* Universities of Leeds and Nottingham, 1978, pp. 3-7; J. Gennard and M. Wright, 'Incomes Policy' in D. Torrington (ed.), *Comparative Industrial Relations in Europe,* London Associated Business Programmes 1978, pp. 161-62; L. C. Hunter, 'Some Lessons from the Failure of British Incomes Policies', in W. Galenson, *Incomes Policy: What Can We Learn from Europe?,* Cornell 1973, pp. 4-7; M. J. Artis, 'Incomes Policies: Some Rationales', in J. L. Fallick and R. F. Elliott (eds.), *Incomes Policies, Inflation and Relative Pay*, Allen and Urwin 1981, Chapter 1.

14. Cmnd. 5205, op. cit., paras. 1, 3, 9, and 26; Cmnd.5444, op. cit., paras. 1 and 32.

15. Cmnd. 6151, op. cit., para. 3. See also *The Counter-Inflationary Policy: Stage 3: A Statement by the Prime Minister,* Cmnd. 5446, HMSO 1973, p. 5.

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Chapter 2

Methodology, Theory and Empirical Approach

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The results of the inquiry depend on the principles and procedures by which the research is conducted. The logic or methodology of the investigation affects the validity of the knowledge produced. The definition of the field of study, the theoretical basis of the analysis, and the empirical research techniques, all also flavour the conclusions.

Consequently, it is worthwhile to adumbrate and justify the methodology and research design before moving to the analysis. Thus Section 1 details the methodology guiding the investigation, while Section 2 explains the coverage of the public sector for the purposes of the study; the basic theoretical framework underlying the four analyses is to be found in Section 3, and the combination of research methods used is described in the fourth section.

1. Methodology

In considering the issues, a procedural logic has to be followed which is capable of producing findings that are valid in the sense that they are accurate, complete, and reliable. A theoretical or empirical approach may be adopted, or theory and empiricism may be combined in one of a variety of ways.[1] This study proceeds on the assumption that both theory and empiricism play a necessary role.

For a satisfactory analysis, empirical data must be unearthed. Theory cannot of itself sufficiently analyse the issues, particularly in view of their focus on a new form of pay restraint policy. Two reasons are apparent. In the first place, owing to the novelty of the policies, some aspects of the theory would be speculative and vague. Secondly, even if pre-existing evidence supported the theoretical propositions, they would be no more than plausible. They would not have been confirmed as currently true by a validation process. Historical evidence drawn from studies of related issues might in fact be inapplicable to financial pay restraint policies owing to the new approach and also the passage of time: thus the factual base might be inadequate or incorrect, emphases might be misplaced and interrelationships might be misspelt.

Equally, unbridled empiricism would be problematic. At a methodological level, it would tend to yield data which were most easily identified by the chosen empirical method, rather than those required by intelligible theory.[2] To take an example from the determinants of pay rises, uninformed empirical fieldwork might tend to emphasise behavioural factors such as pay demands and the use of bargaining power, to the neglect of the role of structural factors. Similarly, quantitative methods might simply emphasise variables that could be measured or proxied, although unquantifiable factors such as institutional processes might also be relevant. Further, the necessity inherent in empirical work to limit the investigation, owing to the size of the population of data that could be tapped, might mean that in unguided studies the data would not produce valid results and conclusions. Irrelevant information would no doubt be accumulated. Important factors might be omitted. False emphases and relationships might be derived. Even if, as is likely, a theory was being followed noncognisantly, a high degree of sophistication would be unlikely, and, as a result, the same problems would arise.

Given the data, the process of explanation from empirical data, too, is questionable on methodological grounds. If the explanation is produced simply by uninformed inferences from the data, it is of dubious validity. It is merely plausible: it is consistent with the evidence but it is not confirmed because theoretical alternatives have not been posed and tested against the preferred hypothesis.

In addition, at an epistemological level, it is uncertain that empirical data on their own would constitute knowledge of a significant scientific nature.[3] The processes studied in this thesis, as with most studied by social scientists generally, are complicated. An unguided empirical approach would not be sensitive enough to provide adequate explanations. The data merely form the basis of explanations.

Together, however, theory and empiricism overcome some of these problems. Broadly speaking, there are two ways of integrating theory and empiricism: first, through induction, where studies are carried out in order to formulate general propositions based on particular empirical instances and, secondly, through deduction, whereby universal statements and the specifics of the situation are used to make deductions about the issue, which are then tested empirically, characteristically by tests of association, to confirm or modify the theory.[4]

The emphasis in this study is on induction. A prior theoretical framework reduces the methodological disadvantages of unaugmented empiricism by directing the empirical exercises in four respects. First, the framework indicates the categories of data which are relevant to the analyses.[5] For example, in the context of the impact of pay policies, pay bargaining criteria such as the rate of price inflation are cited as pertinent variables. Second, the theoretical preliminaries state the viewpoint from which the facts should be interpreted. For instance, they make clear whether pay comparability should be interpreted from the viewpoint of management or labour.[6] Third, the theories suggest interrelationships between the variables, such as the manner in which financial constraints affect economic bargaining power.[7] Finally, the framework specifies, at various levels of precision, the links between the facts and the issues under study.[8] A case in point is the way in which the criteria and procedures impinge on pay increases.

At the same time, the empirical content and style of the inductive approach overcomes the deficiencies of a purely theoretical analysis. The validity of speculative and plausible theoretical propositions is examined in the light of the evidence. Unsupported propositions are eliminated. The explanation is broadened to incorporate additional pertinent facts which were neglected on grounds of perceived irrelevance, or which were unknown, at the theoretical stage: elsewhere, these have been termed the 'recasting' and 'serendipity' functions of empirical research.[9] Further, where there are not so much theoretical propositions as broad categories of explanatory factors, empirical work not only verifies the importance of the categories, but also specifies in greater detail the causal processes at work.

The inductive approach is preferred over the deductive approach for two related reasons. First, basing the study on deductions is unreliable in the field of industrial relations where universal propositions (from which deductions can be made) are rare, owing to the nature of human behavior. Further, theories, where they exist, are not generally well-developed or widely accepted. The danger is that deductions would be inaccurate or inappropriate.

This problem is reinforced by the second consideration: empirical deductive work is seen as verifying and modifying at the margin, rather than enriching and recasting. Indeed, the characteristic style of deductive empiricism is simply to carry out tests of association. Hence the theoretical shortcomings are not remedied at the empirical stage.

It is argued, therefore, that it is much more appropriate to guide the research by indicating (intentionally) broad categories of potential explanatory factors which can be crystallised and supplemented as necessary by empirical results which are produced by methods allowing full analysis of the processes at work. Nevertheless, where inductive research produces findings that can be cross-checked by deductive principles, the deductive approach is used.

2. The Field of Study

The focus of the investigation is confined to the public sector although, with private sector workers accounting for two-thirds of total UK employment, and with many public sector employees having formal or informal links with the pay of private sector workers, settlement levels in private industry and services can be potent forces in the determination of the overall rate of wage inflation in the economy.[10] The restriction of the investigation to the public sector can be justified on three main grounds. First, and most significant, although the strategy in both sectors from 1979 was financial in orientation, the mobilisation of the strategy differed qualitatively between sectors. Stemming from the financial relationship of private sector authorities to the government, the policy instruments used to combat wage inflation in that sector were those employed in the implementation of monetary policy, rather than cash limits and associated devices which applied to public expenditure.[11] Secondly, pay increases in the public sector were especially vital to the State, for reasons which will become evident in Chapter 3. Thirdly, past experience has shown that the operation and outturn of State pay restraint policies are frequently different between the public and private sectors, even when a common strategy is in effect.[12] Hence, an exclusively public sector focus is unlikely to impose undue restrictions on the wider applicability of the findings.

In order to assess public sector pay restraint policies accurately, it is important to be cognisant of the authorities and bargaining units which are the targets of the controls. In the context of financial pay policies this is particularly advisable owing to the variety of financial restrictions imposed and the wide range of circumstances of authorities and negotiating units: a limited focus would not necessarily be representative.

Perhaps surprisingly, there is no single, definitive, published conception of the UK public sector. Presumably this reflects the uncertainties caused by the lack of a formalised and rational machinery of government. This section therefore produces a definition of the public sector appropriate to the analysis of public sector pay control. The shortcomings of existing views are first explained. Following this, criteria for defining public sector organisations are proposed. The authorities with these characteristics, together with the associated bargaining units, are subsequently derived.

2.1 Deficiencies of existing conceptions of the public sector

Few analyses of the public sector in terms of its employment, finance or other characteristics, take the trouble to explain the distinguishing features of public sector authorities.[13] Instead, most simply tend to make casual references to, or draw up lists of, what are believed to be constituent bodies.[14] Criticisms can be levelled at both the (rare) definitions of the public sector and the notions of the authority-composition of the sector.

Where attempts have been made to construct a definition they have sometimes suffered from imprecision to the extent that greatly differing catalogues of authorities could be drawn up according to interpretation.

For example, one study refers to the criterion of 'government or a government-owned corporation or enterprise',[15] while another defines the public sector as 'those [undertakings] forming part of the machinery of central government, those forming part of the machinery of local government, and those other public undertakings which are largely autonomous'.[16] Indeed, it might be argued that these definitions are so vague that they do not in fact constitute definitions.

A second problem with certain definitions is that they rest on varying ad hoc criteria which have no explicit thread running through them which applies universally to all public sector authorities. For instance, the Central Statistical Office defines the public sector as 'the sum of general government and the public corporations' where the subsectors are defined by differing criteria.[17] Through failing to define the public sector as a composite whole, there is a danger that inconsistencies and ambiguities arise in the assignment of organisations to the public and private sectors.

Available lists of, and references to, public sector authorities are of limited value, regardless of whether they are based on explicit or implicit criteria. Clearly, unsubstantiated lists are unsatisfactory conceptions of the public sector because the basis is unknown, and there is the worry that if no criterion was used to draw up the list, the potential error is high.[18] In cases where definitions have been explicitly stated, their intrinsic shortcomings have caused corresponding deficiencies in the lists or references. The problems are sometimes compounded in the application of the criteria: for example, one study fails to identify tax-funded authorities in central government apart from the civil service, and public corporations other than nationalised industries.[19]

Further inadequacies tend to appear in all types of conception. First, references are generally made, and lists are often framed, at a high level of aggregation, identifying broad categories of authorities without distinguishing eacn constituent organisation.[20] Second, where efforts are made to isolate individual authorities, the references and lists are, without exception, incomplete. Normal practice is merely to cite only major bodies as illustrations of broader categories of authority.[21] Third, many lists are out of date owing to government action to widen and narrow the scope of the sector.[22]

Conceptions of bargaining units in the public sector are even more rare and problematic.[23] Selection criteria are unstated and lists are very incomplete.

In view of the severe limitations of currently published conceptions of public sector authorities and bargaining groups, it is necessary to establish explicit, universal, criteria defining the public sector which are plausible and precise, and to rigorously apply them to form an up-to-date, comprehensive and disaggregated list of bodies forming the public sector. Constituent bargaining units can then be exposed.

2.2 The establishment and application of satisfactory criteria

The essential feature of the public sector is that authorities are under public ownership and control. It is in such bodies that the government is directly or indirectly the employer with responsibility for the determination of pay, and can implement a distinctive pay restraint policy.

In this context, public ownership and control are being taken to imply three characteristics. First, it is presumed that the interests of the public rather than those of industry or persons are served. Second, a dependence on finance from sources other than private funds, (such as private capital which might yield ownership or control rights), is envisaged. Third, there must be some form of public accountability. All three criteria must be met for an authority to be classified as part of the public sector; a failure to meet any of the criteria may indicate the possibility of a response to private interests and a corresponding diminution of the role of the government as ultimate employer with responsibility for wage decisions.

The notion that public ownership and control is of central importance gives this conception of the public sector an explicit, plausible, and universal base. The three-pronged operationalisation of the notion ensures a high degree of precision.

In applying the criteria it is evident that authorities of widely varying detailed characteristics qualify for public sector status. Three subsectors, each with its own configuration of distinguishing characteristics, can be isolated: central government, local authorities and public corporations.

2.2.1 Central government

Central government is taken to comprise bodies which advise the government, and formulate and administer government policy. The authorities are distinctive in terms of all three criteria. They serve the interests of the public performing functions associated with government at national level. Secondly, there is an effective total--or near-total--dependence on the government for finance for expenditure. This does not imply that all finance is necessarily funded by national taxation. Some may come from other sources, but either it is closely regulated by the government; or explicit compensating adjustments are made to Exchequer finance; or it is relatively insignificant. Thirdly, a Minister of the Crown or other responsible person is accountable to Parliament for the activities of the authority. This involves a greater or lesser degree of Ministerial and departmental control over the operation of the body. Authorities which are government-financed generally submit detailed statements of expenditure and revenue to Parliament, and are usually subject to official audit and possible investigation through the work of the Comptroller and Auditor General, the Public Accounts Committee and the various House of Commons committees.

Other than the Armed Forces and Parliament, two main categories of central government organisations can be isolated on the basis of the criteria: government departments and non-departmental bodies. The key difference between departments and non-departmental bodies lies in the form of public accountability and control to which they are subject.[24] Departments are under day-to-day direction by Ministers and Permanent Secretaries. In contrast, non-departmental authorities are controlled in less detail. Stringent control is confined to major matters such as the expenditure programme of the body and the allocation of grant finance for expenditure. Although both types of body are financially dependent on the Exchequer, it tends to be (but is not always) the case that departments receive government money direct from the Exchequer while non-departmental bodies receive it through departments.

Many conceptions of the composition of the category of government departments exist, largely varying according to the purpose in hand.[25] For example, government financial publications such as the Supply Estimates and the Appropriation Accounts list departments which account for public expenditure Votes.[26] Different lists of departments can be found in government staffing publications; in Hansard, for answering Parliamentary questions; in the reports of the Parliamentary Commissioner for

Administration;[27] and various other official and non-official publications.[28] However, no source adopts the criteria preferred here. As a result, an independent list has been constructed. It appears in Appendix 1.1. All the bodies fulfil national government functions, are cited in the Supply Votes as directly in receipt of Exchequer funds for expenditure, and are subject to detailed control as distinct authorities.

Problems also beset the use of available compilations of central government non-departmental bodies. Few have been based on appropriate criteria. Indeed, most lists have not been prepared with the purpose of isolating <u>central government</u> authorities. They have encompassed authorities serving industrial or personal interests; some bodies have not been dependent on government for finance, and others have either not been accountable or not tightly controlled. Thus, variously, their focus has included all non-departmental bodies with a role in the processes of government;[29] permanent agencies of government, whose chairman or board was appointed by government, and whose staff was separate from that of the department;[30] and bodies to which Ministers appoint members.[31]

In view of this situation, the central government non-department criteria have been applied to bodies mentioned in these publications and to other bodies that have been omitted. Those authorities meeting the criteria and employing more than 2000 full-time equivalent individuals are listed in Appendix 1.2.

In total, this view of the composition of central government may approximate other conceptions, but this version has a more apposite foundation, and, given the criteria, is more accurate and comprehensive than most. In mid-1979 the sector consisted of 2,424,000 jobs (no distinction being drawn between full-time and part-time jobs).[32] The employment levels in major authorities are shown in Appendix 1.2. The dominant employers are clearly the civil service, the armed forces, the National Health Service (NHS), and the universities.

The bargaining units to which central government employees belong (at the principal level of pay determination in cases where they are subject to more than one agreement), together with the approximate numbers of employees covered, are also indicated in Appendix 1.2. It can be seen that the targets of policy in central government are mainly large bargaining units which negotiate at national level.

2.2.2 Local authorities

Local authorities are authorities of limited geographical scope with powers and duties to provide public services. Their characteristics assign them to the public sector but distinguish them from central government and public corporations. They serve the public interest as defined by local governments within parameters set by national government. Although publicly funded, there is less effective dependence on the government for finance than in central government, for a significant proportion of finance is raised through the power of authorities to levy certain forms of local taxes. Public accountability takes the form of the making of returns of income and expenditure under the Local Government Act 1972 and the Local Government (Scotland) Act 1973. Financial accounts are audited in England by the district auditor (appointed by the Secretary of State for the Environment) or an approved private auditor. Audit is carried out by different bodies elsewhere in the UK.[33]

The authorities meeting these criteria are relatively easy to identify, as compared with central government bodies. A summary appears in Appendix 2. The main bodies covered are authorities with general administrative functions.[34] In England and Wales, for example, in 1979 there were 53 large county authorities (6 of them being metropolitan counties), within which there were 369 smaller district authorities. English county councils usually have responsibility for police, the fire service, transportation planning, strategic planning, highways, traffic regulation, consumer protection and refuse disposal. District councils are charged with functions such as environmental health, housing, and refuse collection. In non-metropolitan areas county councils are responsible for education, libraries and personal social services, while in metropolitan areas district councils have responsibility. Special arrangements apply in London, functions being divided between the Greater London Council and the London boroughs (including the Corporation of the City of London). Additional to general administrative authorities under the local authority umbrella are a myriad of local bodies with special functions such as markets and licensing authorities.

In aggregate, UK local authorities employed 3,070,000 individuals (on a job-count basis) in mid-1979. The whole-time equivalent total was approximately 80 per cent of this figure. Of the job-count total, 52 per cent were engaged in education, 11 per cent in social services, 5 per cent in construction, and 6 per cent in the police service.[35]

The principal local authority bargaining units, and their size, are listed in Appendix 2. As in central government, the principal level of pay determination is at national level. These units form part of the focus of pay restraint policy and hence the field of study of this investigation.

2.2.3 Public corporations

Public corporations are public trading bodies with a substantial degree of independence from central government and local authorities. They pursue the public interest according to the wishes of their boards within the bounds set by government. The assets are publicly owned. No finance is obtained from shareholders or proprietors. However, in contrast to central and local authorities, there is generally less dependence on government-sanctioned finance. The government makes grants to some corporations and facilitates external finance from public dividend capital and borrowing, but usually a significant proportion of finance is raised internally from trading operations. Public accountability is exercised through the whole or majority of the board of each corporation being appointed directly or indirectly by the Sovereign, Parliament or Ministers. Freedom from detailed intervention through an arm's-length relationship between corporations and government is rooted in the Morrisonian concept of a public corporation.[36]

The authorities fitting these criteria in mid-1979 appear in Appendix 3. At this time, eighteen were designated nationalised industries, differentiated from other public corporations by the degree to which they were engaged in the sale of goods and services and by the extent to which they gained revenue directly from customers.[37] Subsidiaries of public corporations are allocated to the public corporation sector when their accounts are consolidated with those of the parent corporation. The subsidiaries of the National Enterprise Board (NEB) are excluded on the grounds that their accounts are not consolidated with the parent company and some private shareholders remain. In spite of government involvement, they are more appropriately seen as part of the private company sector.

Since the effective date of the list of public corporations the government has passed legislation allowing the sale of the whole, or parts of, a number of nationalised industries to private interests.[38] The first public corporation to be denationalised was British Aerospace in February

1981 when a minority holding was sold. Consequently, this industry is now part of the private company sector. Also, since mid-1979 Crown Agents (January 1980) and HMSO (April 1980) have been switched from central government to public corporation status.

The public corporations employed 2,061,000 full-time equivalents in mid-1979, of which 1,774,000 were in nationalised industries.[39] The disaggregated picture appears in Appendix 3. Since this time, several authorities have contracted, notably steel which has halved in size.

The bargaining units appear in the same appendix. The main level of bargaining is the national level once again, but in a few cases there is some decentralisation. Correspondingly, pay restraint strategies are directed primarily at national-level negotiations.

2.2.4 Summary

In sum, the public sector covers a wide range of authorities, all publicly owned and controlled, but differentiated by the particular type of public interests served, source of public finance, and procedures for accountability. The financial pay restraint strategy was targetted directly at these authorities, and indirectly at the associated bargaining units, which are primarily national-level entities. In consequence, the theoretical framework and the empirical research in this study are designed to take account of differing financial contexts and the salience of national-level bargaining. It is to the theoretical basis of the investigation that attention is now directed.

3. Theoretical Framework

The purpose of the theoretical framework is to provide a theory of pay determination that can be used to help direct the empirical research into all the issues under scrutiny. The reasons for government involvement in pay control in the period of interest, the first issue, clearly might include forces in pay determination that foster inflationary tendencies. The form of the financial pay restraint policy, too, may reflect the manner in which pay is settled. Similarly, the causes of the impact of the financial pay restraint strategy on pay increases can be more easily identified with reference to the factors determining pay. Finally, the consideration of the theoretical and practical implications of the strategy is enlightened and structured by analysing the relationship of types of policy to the determinants of wage inflation. Of course, in each case, the basic, and necessarily very general, model of pay fixing has to be suitably modified and supplemented to suit the particular question in hand: these theoretical amendments are introduced in the relevant parts of the thesis.

Many kinds of theories of pay are feasible, distinguished in part by their disciplinary paradigms which define the essentials of pay determination and the pattern and content of the interrelationships between the key variables.[40] Thus, to the extent that there exists an industrial relations paradigm (and there is much debate about this),[41] it is associated with pay theories which focus on institutional and strategic factors such as structures, relations, processes, policies, power, and legal and policy constraints.[42] Particular paradigmatical differences, such as between pluralists and radicals over power relations, account for some internal differentiation of approach.[43]

Alternatively, pay determination might be analysed less from the standpoint of institutions and strategies as from the human actions which produce, and work within, those impersonal variables.[44] A market-oriented economic approach, predicated on the asserted importance of commodities, individuals and exchange, would explain pay in terms of individual labour market choices on the supply side, and product market and technological forces on the demand side.[45] Institutional economists would temper this with a recognition of the mediating role of collectivities and other institutional features of the real world of industrial relations. They would therefore acknowledge that group decisions, negotiations, and bargaining power require explicit modelling within a framework that is still at root economic.[46]

Other disciplines centre on different facets of human action and interaction. A political science view would draw attention to the roles of basic value systems, demands and expectations of industrial relations groupings; the interests of groups within larger collectivities; and the organisation, procedures and internal operation of the parties.[47] Psychologists would concentrate on motivation and personality; and perceptual and thought processes.[48] Sociological perspectives would emphasise the part played by the social structure at micro- and macro-levels, such as the class divide and workgroup constituencies, and that played by social processes within those structures, such as the preoccupation with drawing limited social comparisons.[49] Historical approaches would seek to expose the rationale of settlements with reference to the circumstances of the time.[50] Legal analyses would acknowledge the influence of the attitudes of legislative bodies and the courts.[51]

The value of each paradigm is undeniable. All approaches are capable, through their individual angles and styles, of contributing to the understanding of pay determination. None is intellectually feeble.

A multi-disciplinary analysis has obvious attractions. In the first place, disciplines can be of 'additive' explanatory merit in the sense that, in combination, they are able to account more accurately for the outcome of pay determination than can one discipline in isolation.[52] For example, an economic perspective might indicate similar pay negotiation outcomes, given the same economic circumstances, in two authorities, but a political perspective used in conjunction would recognise the possibility that the outcomes might vary according to internal organisational politics which affect the intensity with which claims and offers are pursued.

Secondly, disciplines complement each other in the sense that they provide 'correlative' explanations, that is, alternative perspectives on the same causal process, one discipline exposing correlates of explanations in others. For instance, in the above example, economic and political explanations would correlate each other to the degree that the result of intra-party manoeuvring merely mirrored the financial position of the authorities.

Although a multi-disciplinary approach would facilitate a full explanation in both these senses, anything but a superficial treatment is a monumental undertaking. Since there is no <u>inter</u>disciplinary intellectual framework as such, the paradigms of each discipline would have to be used to describe and explain the relevant issues. In order to make the present analysis of the public sector financial pay restraint policy manageable, the perspective is restricted. The inquiry is fundamentally an industrial relations study. Thus a strong institutional flavour is maintained: the investigation proceeds in full recognition of the importance to explanations of the role of industrial relations institutions and strategies, such as management, union, and government structures and policies. However, the approach is not imperialistic.

The industrial relations structures and processes are recognised to be affected by other forces. Importantly, the roles of economics and politics are considered. It is held that these disciplines provide the most appropriate paradigms to analyse pay determination outcomes because the economic and political climate is necessarily, directly and significantly related to the financial environment and the shape of institutions and strategies. Of course, this is not to argue that other forces are redundant. The part played by historical, legal, social and psychological factors is not precluded where of significant additive importance.

However, this approach is not without its critics. Since the public sector is inevitably more susceptible to political market forces than is the private sector which responds more readily to economic market forces, given the freedom afforded by competition, law and economic management policies, it has been argued by some that for all intents and purposes the environment of public sector industrial relations can be considered as simply political. For example, Batstone et. al. have argued strongly that

> the political contingency rather than the pursuit of profitability determines the logic of management action in the state firm.53

Thus labour relations strategies are seen as responding to political signals: for instance,

> the contingency may lead to political decisions to increase the degree of exposure of state enterprises to market forces, and this in turn may induce management to seek greater control of labour.54

It is certainly worthy to underline the importance of political forces, but it is a mistake to abstract from economic markets. One is reminded of Boulding's lament in 1949:

> There is a strong tendency among... labor specialists, not merely to let economics go by default out of ignorance, ... but to cast it out of the window bodily, with shrill cries of jubilation. One can hardly pick up a new book on labor nowadays without finding the author jumping gleefully on what he thinks is the corpse of demand and supply, or proclaiming with trumpets 'The labor market is dead...55

Public sector managements' objectives are indeed politically-determined, but strategies have to react to changing economic circumstances, independently of the political exigencies. For instance, a contraction in demand caused by a recession might cause a reappraisal of public corporation wage policy in order to meet the given financial targets. A rise in demand, conversely, might facilitate a more flexible response to union demands.

To be sure, Batstone et. al. acknowledge, in passing, that

> the way the strategy formation process works itself out in a particular organisation depends on the nature of the activity - the service provided, the sort of market, the technology, the labour force.56

However, this is not developed and (in the same sentence) pride of place is attributed to the political contingency. The root of the problem appears to be a methodological focus on the political process of strategy generation, which leads to non-political factors being treated as exogenous constraints and being robbed of independent explanatory power.

At the other extreme, some might argue that political factors largely mirror economic factors. According to this view, the economist:

> is somewhat in the position of the astronomer who can neglect the problem of whether angels move the planets, because whether they do or not their behaviour toward the planets is perfectly regular, and therefore predictable, and hence any other quirks of motive or character which they possess can be neglected. I say 'somewhat' because the men who move commodities are much less regular in their behaviour toward them than are the angels, if any, toward the planets, and hence the economist cannot regard the universe of commodities quite without regard to the men who move them and are moved by them. Nevertheless, the behaviour of men toward commodities is regular and simple enough to justify as a first approximation the concept of a universe of commodities following its own laws.57

This position, too, is rejected in this context. The danger would be analogous to that implicit in the approach of Batstone et. al.: that disciplinary polarisation would lead to key explanatory factors being ignored. The joint economic-political approach would seem to be more fruitful.

Reflecting the disciplinary orientation, the fundamental proposition of the theoretical framework is that pay increases are the product of negotiators' pay determination strategies within the economic-political environment and the institutional and procedural context. Micro- and macro-economic forces and politically-determined rules of conduct for authorities, through their implications for financial parameters, influence the arguments of the parties to pay determination and their bargaining power. The internal organisation of the parties, as well as the negotiating context of bargaining structure and the procedures according to which negotiations take place, can also affect pay strategies. Within these constraints the bargaining strategies themselves are partly of independent relevance to pay determination, influenced by internal politics, power and social concerns. These categories of explanation are applicable to pay determination at any level, be it where principal increases are negotiated or where rewards for work input, productivity and output are administered on a day-to-day basis.

For pedagogical purposes the theoretical framework is divided into three parts. The potential consequences for pay increases of the economic-political market environment; the organisational and procedural context: and bargaining strategy, are specified. At the same time, the factors moulding the contexts and strategy are indicated.

Parenthetically, it should be said that as a result of the use of a multidisciplinary framework, albeit with a restricted selection of paradigms, the theoretical basis of the thesis is to some extent disjointed. The causal factors, noted in different disciplines, and to some extent being independent of each other, cannot be readily interrelated in any regular fashion. Nevertheless, this does not detract from the potential explanatory power of the framework.

More generally, it should be noted that the theoretical framework is drawn up at a relatively high level of generality and comprehensiveness. This is intentional and in accordance with the methodological stance taken in the thesis, whereby categories of explanation are indicated in order to give the empirical work direction, but are not so specific that the research suffers from tunnel-vision.

3.1 The economic-political market environment

The economic-political environment is important in pay determination primarily because it imposes financial constraints on negotiators. The elements of the economic-political market which define the financial constraints faced in bargaining in the public sector are deducible from a bilateral monopoly model of wage determination. Such a theory is appropriate because public sector authorities in the UK are generally relatively large employers of the categories of labour hired and unions are prevalent throughout the public sector, with very high membership density, especially amongst manual workers.[58]

In the model, depicted in diagram 3.1, the authority's labour demand curve shows that the wage the employer is willing to pay varies with the marginal revenue productivity of labour. The marginal demand curve shows the increase in the wage bill upon an increase in the demand for labour. The monopolistic position of the employer implies that wages must be raised to increase employment in the authority - the labour supply curve facing the firm slopes upwards because the authority's demand for labour has a significant effect on the market demand curve, and hence on the market wage. As the higher wage has to be paid to all employees, tne cost of an extra unit of labour - the marginal cost of labour - is above, and increases faster than, the wage.

Within this framework, there are conflicting pressures on wages. The strategy of the employer is assumed by the theory to be to minimise costs. The equation of the marginal cost of labour with the marginal revenue product at employment level e_e yields a preferred wage level w_e. The objective of the union is usually held to be to maximise the economic rent to labour. At the point e_u, where the supply price of labour equals the marginal return to labour, the wage is w_u. This aim may be realistic where unions are concerned with relative pay advantages between alternative employment opportunities. Even if not, it can be safely assumed that the union aims for a wage above the competitive wage where demand and supply intersect. Since, in bilateral monopoly, the desired pay levels of unions and management do not coincide, there is a 'range of indeterminacy' within which other economic and non-economic forces interact to precisely fix remuneration between w_u and w_e, somewhere on the labour demand or supply curves, assuming the employer hires all the labour he can, given the wage.

Financial pressures on authorities are implicit in the labour demand function. Ceteris paribus, authorities find it easier to finance pay increases when the demand for labour increases or becomes more inelastic. While there are several factors that can cause this to happen, three are of particular importance.

First, higher product or service demand increases labour demand, given other factor prices and the technically-determined factor productivities. Essentially, higher sales raise prices and revenues in economic markets, while in "political markets," where non-trading authorities obtain their finance, greater financial provisions for public services and investment directly increase budgets.

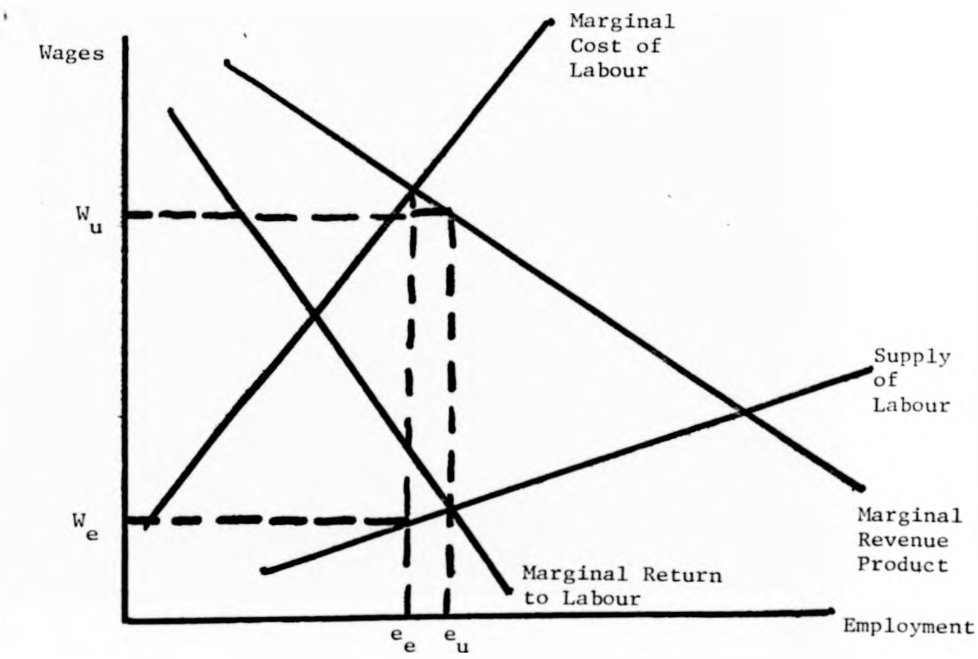

Diagram 2.1: Bilateral Monopoly

Second, monopolistic market structures cause product demand and hence labour demand to be inelastic, given the proportion of labour costs in total costs, and the feasibility of factor substitution. In economic markets, a lack of competition allows product prices to be put up to finance pay increases, without a significant fear of a loss of output and therefore employment. In political markets, where the authority is in a powerful position, it is able to raise finance from the government or taxpayer without undue difficulty.

Third, a low labour cost-total cost ratio contributes to inelastic labour demand, given the elasticity of product demand and the technical possibilities of factor substitution. In both economic and political markets, a low ratio facilities higher pay increases within a given budget because there is more scope for substituting pay for non-pay expenditure.

Therefore, the financial constraints on central government authorities' budgets are determined by the political market structure - the power of the authority vis-a-vis the government and other interested parties, such as Parliament and the unions, in the planning and control of expenditure; by the attitudes of the dominant party in the political market towards expenditure; and by the possibilities for expenditure substitution.

Local authorities' budgets are also determined in the political market, but in two segments of it. First, in the centre-periphery market, the relative market power of the authorities, their associations, the government, and other relevant parties together with the dominant political market attitudes, is influential in fixing government grants. Second, the structure of, and attitudes in, the local submarket involving the authorities and ratepayers determine rate income. Within overall budgets, the labour cost-total cost ratio is once again important. The public corporations are involved in both political and economic markets. The structure of, and attitudes in, the government-industry political submarket settle the limits to external financing and the other controls on corporation finance and expenditure. The industry political submarket, primarily involving the corporations and their consumer councils is also relevant, particularly to price determination and hence internal revenue. Finally, the economic market structure and product demand trends, as indicated earlier, carry implications for revenue.

While these dimensions of the economic-political market environment are important to the theory of pay determination, as the bilateral monopoly model indicates, the financial constraints merely form upper constraints on pay increases. Other, institutional and strategic, factors may be pertinent. They are considered in the next two subsections.

3.2 The institutional environment

One set of forces acting on pay bargaining and mediating economic and political exigencies is the configuration of formal and informal structures and processes which channels the strategies of the parties. The formulation and development of bargaining stances depend in part on the organisation of the management and union sides: it helps to determine the influential actors in each party, and thus policy. In addition, it affects the strength of the party as a whole. The content of strategies and the vigour with which they are pursued are also constrained by the framework of rules governing the structure of bargaining and the conduct of the pay determination process.

3.2.1 Internal party organisation

In more detail, pay offers and claims are affected by the composition, arrangement and interrelationships of roles in the organisation, as actually operative and not necessarily as formally defined by the authority.[59] These features are reflected in three main structural characteristics and two central processes: the role composition of the organisation; the horizontal and vertical distributions of decision-making responsibility; communications; and control mechanisms.

The role composition of the organisation defines the balance of functional roles in the organisation and the degree of role specialisation. Within management, it is probable that more, and specialised, labour relations and finance roles are more conducive to management strength in pay determination.[60] For example, in relation to industrial relations roles, greater and undivided attention could be paid to negotiations, and skills and knowledge would be possessed or developed, both of which would make the management side more adept at the handling of negotiations.[61] Similarly, specialisation in negotiating by certain union officials, and the concentration of attention on 'client' bargaining units can be expected to strengthen unions. More broadly, the occupational composition of the union membership tends to affect union power. For instance, manual units may be more militant than white-collar units, as were postmen vis-a-vis switchboard operators in the 1971 Post Office strike.[62] A heterogeneous workforce may be less easy to mobilise than a homogeneous group.

The horizontal distribution of pay decision-making power between management functions, such as finance and labour relations, or between separately-constituted 'professional' negotiation bodies, elected officials and management; and between unions on joint union committees, or between union officials in different functional roles, can have implications for the pay strategy adopted. This arises from the emphasis of different considerations.

Management departments have varying interests, and given autonomy, are likely to pursue them, even to the detriment of other departments.[63] Further, independently of departmental interests, departments have different outlooks, tending to perceive the interests of senior management in different ways: departmental specialties tend to be emphasised.[64] The frames of reference emanate from the members' predispositions, experience, training, roles and position in the organisation, and departmental ideology.[65] Consequently, the industrial relations functions may try to satisfy union demands to a greater extent, *ceteris paribus*, because it may believe it to be in its own, and what it perceives to be top management's interests to have an adequate and quiescent workforce. This may be at odds with the desire of the finance function to control the organisational budget, however. All other things being equal, in these circumstances pay control is more likely to be effective when structures assure that the labour relations function is weaker than the finance function.[66] In a similar vein, professional negotiations, elected officials and executive management, frequently have different interests and outlooks, so their relative influence in negotiations affects outcomes.[67]

On the union side, functional differences of opinion may occur such as between research, organisation and negotiating personnel. But probably greater differences are likely between unions on joint committees, rooted in differences in membership occupational composition, different pay problems, competitive attempts to increase membership, and ideology.[68]

In both the management and union cases, the organisational features that affect the horizontal power distribution include the allocation of seats on pay decision-making bodies, the voting procedures, and the way in which meetings are conducted.[69]

The vertical distribution of decision-making authority refers to the multilateral allocation of power between, for example, organisational levels such as the Board and the industrial relations department in a nationalised industry, and between organisations and external controlling bodies such as responsible departments and the government. On the union side, the vertical dispersion of power relates to the authority of the rank and file vis-a-vis full-time officials and confederate union officials. Once again, differing views make for potential variation in bargaining stances[70] according to the distribution of power determined by, for instance, formal representation and voting rights, and informal access to those notionally responsible for taking decisions.

Within management, the centralisation of decision-making probably makes for tougher stances in bargaining for three reasons. First, it facilitates the achievement of top management's goals through the maintenance of a comprehensive perspective in decision-making.[71] Factors can be taken into account which are formally beyond the concerns of devolved layers of authority owing to role specialisation. Importantly, centralisation of bargaining decisions allows, *ceteris paribus*, the acknowledgement of financial constraints to a greater degree. Second, centralisation may avoid any tendency of labour management to neglect their responsibilities of pay control. It is firmly established that managerial objectives at different levels are not necessarily congruent,[72] although for reasons of organisational ethos, career dependency and stringent environmental pressures, this should not be exaggerated.[73] Personal goals may vary. Perceptions of the situation and appropriate courses of action may differ with the proximity to the situation and the role fulfilled in the organisation. Thus, while directors, owing to their position and role, tend to show a lack of concern with the position of employees, treating them as a cost that should be controlled, personnel management tend to be more pragmatic, emphasising 'fair' pay rises maintaining industrial peace and adequate labour input.[74] Thirdly, concentration of decision-making at the centre of the organisation may lead to more appropriate pay settlements where the decisions are non-routine. In such instances, the matters cannot be handled according to set criteria or procedures by decentralised personnel, and there may be reluctance to allow lower management to make the decisions especially where they are critical.[75]

Decentralisation, on the other hand, may increase pay control too. First, it has the advantage that the decision-makers are likely to have detailed knowledge and skills which can be applied in bargaining.[76] They may have the professional attributes to deal with non-routine as well as routine negotiations. Second, decentralisation aids speedy decision-making, since, *ceteris paribus,* there is a reduced communications lag.[77] This may conceivably oil the negotiation process and prevent worker restlessness and militancy, and thereby lead to lower pay rises than with constant referral to higher authority.

In unions, too, actors at different levels face different pressures and have different perceptions. In contrast to management, however, the consequences of the degree of centralisation of decision-making authority for bargaining strategy appear more ambiguous. For instance, it has been argued that in the early 1960s NUS union leaders were able to use their position to pursue more conservative policies than the membership would have preferred.[78] Meantime, historically, in the TGWU, Deakin often used his decision-making power to moderate the demands of militant groups in the union.[79]

Mediating the distribution of authority are communications networks and control mechanisms. Whatever the locus of decision-making, these features help determine the extent to which others in the organisation can exercise influence, bringing their potentially differing perspectives to bear. That modifications to strategies can result is clear, although whether stances become more or less militant is sometimes uncertain.

Communication allows decisions to be better informed, and, in particular, decision makers can be made more aware of the consequences of their planned actions.[80] Further, through wider knowledge and more skill being addressed to the problem, unintentional errors of judgment may be reduced.[81] It is difficult to predict the impact on pay. The decision-making group may come under greater pressure from other groups in the organisations, and thus see its power reduced, or, conversely, it may be able to strengthen its position through persuasive argument. In management, horizontally, the finance function might emphasise the financial situation to the industrial relations department, and, vertically, the Board might impress on the department the need to take account of wider considerations. Alternatively, communications from the industrial relations function might secure a more flexible approach in bargaining. In unions, vertical communications may be used to attempt to persuade the leadership to acknowledge rank-and-file sentiments, or officials may use them to exhort and explain in order to gain support for their position.[82]

Control mechanisms within management tend to add to the toughness of bargaining strategies. Ceteris paribus, they increase the likelihood that organisational members responsible for pay negotiations act so as to achieve the goals set for the organisation, rather than different perceptions of those aims, or other aims. Programmes for action may be carefully stated by higher authority, perhaps in financial terms. Monitoring may occur to check that the plans are adhered to. Procedures for investigation of deviation from the plans may be established.[83]

Union control mechanisms on the leadership, in the form of conferences, branch and workplace meetings, and ballotting provisions, may modify bargaining strategies although the efficacy of such mechanisms has sometimes been questioned. For example, the power of the moderates in the AUEW is reputed to have increased following the switch to postal ballots in elections from branch voting.[84] In advocating strike ballots, the Conservative Government of 1979-83 also explicitly assumed that many leaders were more ready to take industrial action than were the members.[85] However, in practice, the way in which strategies are affected by control mechanisms is more ambiguous, depending on the differences of view of leaders and members.

3.2.2 Bargaining structure

Bargaining structure, the framework of procedural rules delimiting bargaining levels, units, formality and scope,[86] is capable of fashioning the types of negotiating arguments put forward and the extent to which they are enforced by the parties.

The level of bargaining relates to the level of management with direct responsibility for negotiation: that is, whether there is multiemployer bargaining, authority-level bargaining, divisional or establishment negotiations, or workshop pay determination. The implications of the bargaining level for the magnitude of pay increases are equivocal.

Centralised bargaining may enhance management's bargaining position relative to that of the union in four ways. First, centralisation through its ramifications for the number of bargaining units, acts to reduce the potential for leapfrogging, and thus for costly and inflationary wage increases.[87] For example, competitive rises may occur where decentralisation gives bargaining groups with similar power,[88] or where institutional or legal devices (such as the now-defunct Schedule 11 of the Employment Protection Act) or informal comparisons can be used to transmit pay increases across groups.[89]

Second, centralised negotiations may conceivably reduce union power. Militant and powerful sections of the workforce may be neutralised in a more conservative and less powerful mass, such as happened in British Leyland.[90] Further, the power yielded by developed workforce organisation and coordination between plants may be made less relevant by central bargaining.[91]

Third, bargaining at authority level facilitates greater management control of pay negotiations. Senior management may become involved, there being fewer negotiations to deal with, and those now at a higher level. Correspondingly, a greater congruence between negotiator goals and top management aims may be expected. Indeed, analogously with the evidence on the loci of decision-making in management, decentralised bargaining has been discovered to tend to lead to deviations from 'official' management objectives.[92] For example, in one study, centralised negotiations were retained because plant management was thought likely to adapt the wage structure to meet production targets.[93]

Fourth, centralisation of bargaining within the authority may heighten the awareness of the ability-to-pay. In comparison, there may be a greater tendency at a decentralised level to ignore the implications of pay deals for the organisation as a whole and for employment security.

However, the opposite may be true in some instances: decentralisation of negotiations may further management control. First, bargaining can be related to economic circumstances. The ability of the authority to pay may be evident from organisational and departmental budgets.[94] Wage levels may also be curbed by relating them to local rather than national labour market conditions.[95] Also unit labour costs may be restrained more easily at a local level by negotiating concomitant increases in productivity.[96] For example, the Commission on Industrial Relations (C.I.R.) found some companies decentralised bargaining to raise productivity and eliminate demarcation inefficiencies.[97] The National Board for Prices and Incomes (N.B.P.I.), too, advised such strategies in some cases in the late 1960s.[98] Secondly, decentralised negotiations can minimise union power in certain circumstances. In particular, when unions are fragmented, weak and uncoordinated, they are not likely to impose an inflationary threat through leapfrogging.[99]

Bargaining units, the groups of workers covered by collective agreements, are partly a function of the level of bargaining (in that more decentralised arrangements tend to imply more fragmentation), but they are also independently determined, and are therefore worthy of separate consideration. The control of pay depends on, once again, the probability of leapfrogging, and the implications of unit coverage for union power. A more fragmented structure facilitates leapfrogging, either through uncoordinated claims or through engineered pattern-setting. As indicated above, case studies have shown that this is a prevalent worry of managements where comparisons are rife in bargaining.[100] The consequences of the composition of units for union power are less clear. Much depends, again, on organisation, the distribution of militancy, and inter-union coordination. On the one hand, a broad coverage can give the union unity and thus power. This was the belief of tne National Union of Mineworkers (NUM) when it opposed the introduction of area incentive schemes in the mid-1970s: it felt the NCB would be able to use differential productivity earnings to weaken the union in central negotiations over annual general increases.[101] On the other hand, a broad coverage can neutralise powerful elements, which under fragmented arrangements might stimulate wage advance through competitive bargaining or wage leadership.[102]

Bargaining form relates to the degree of formality of agreements, that is the extent to which they are jointly authored and written down. High degrees of formality are widely believed to increase management control over pay. Areas of uncertainty can be reduced so that payments are made as intended rather than according to the pressures operating at the point of pay determination.[103] For example, formal agreements may prevent the use of incentive schemes and overtime payments for purposes different from those intended. On the other hand, formality may not necessarily have the desired effects if the formal agreements do not carry the same authority that the previously existing informal understandings had. Informality may also actually benefit management by providing the leeway for the exercise of tighter unilateral management control.[104]

Finally, bargaining scope, which refers to the subject matter encompassed by negotiations, may produce greater or lesser inflationary outcomes, depending on the bargaining issues involved. Extensions to the number of remuneration items that can be jointly determined are likely, if anything, to increase union demands. There are potentially more areas where greater benefits are wanted. A wider scope of bargaining in other ways might strengthen management's position, in contrast. First, by increasing the range of negotiable matters to incorporate former unilaterally-determined working practices, management and worker inefficiencies may be reduced.[105] This was advised, for example, by the N.B.P.I. in the 1960s.[106] Second, new bargaining issues unrelated to pay, such as control over decisions, may afford the possibility of concessions to workers of a non-inflationary kind. This idea lay behind some of the Social Contract clauses agreed between the Government and the Trades Union Congress (T.U.C.) in 1974.[107]

3.2.3 Pay determination procedures

Given bargaining structures, the practice of negotiation is influenced by pay determination procedures including formal pay criteria, settlement dates, settlement intervals, arbitration arrangements, and payment systems. The potential importance of such procedures for wage inflation is indicated by the plethora of suggestions made for their reform over recent years.[108]

Where there are formal procedures laying down the criteria to be used in pay determination, in times of financial adversity such as the one under study, wage increases are likely to be greater where the criteria are comparability or changes in the cost-of-living, and lower where there is recognition of the ability to pay (including the rate of productivity growth). In the first place, there is no reason why the warranted increases would be within the economic constraints, especially during conditions of increasing stringency brought about by high price and wage inflation. Secondly, over the longer term, wage control is endangered because the cost-of-living argument is likely to accentuate the price-wage spiral,[109] and comparability the wage-wage spiral.[110]

The timing of pay settlements relative to each other can impact on the magnitude of pay increases in four ways. If anniversary dates are dispersed widely throughout the year, settlements tend to be reached against differing backgrounds; different increases may then stimulate relativities claims which are difficult for authorities to finance,[111] as British Leyland reportedly found before centralised bargaining.[112] Second, the order of settlements in the August to July pay round may induce pay rises that are greater than would be payable on the grounds of international price competitiveness alone, should some sheltered industries and services settle first and oblige the competitive sector to follow on grounds of comparability or labour supply and demand.[113] Third, the order of settlements affects the potential for wage leadership. Fourth, where product demand is seasonal, the timing of settlements is crucial to union power.

Regarding the effect of the length of agreements, ceteris paribus, longer agreements tend to contain pay growth when wages are primarily raised in response to past trends in prices and other wages, as is usual in the UK. Essentially, there is a longer lag before retrospective recompense is made, so the time-path of the authority's wage levels is lower than it otherwise would have been. Of course, if negotiators look at expected inflation, the longer the agreement, the higher the interim wage levels, all other things being equal. The potential importance of settlement intervals is amply illustrated by the exhortations by the Labour Government in the Social Contract Mark I period of 1974-75 to negotiators to refrain from reopening agreements until they had been in force twelve months, for fear of a rapid escalation of wage inflation.

Pay increases may also be significantly affected by third-party arrangements. Where access to a third-party is possible, especially without the agreement of the employer, management's position in pay determination is likely to be weakened. Given different interests between the third-party and the employer, perhaps because the third party is charged with the operationalisation of criteria other than the ability to pay, or because it recognises union arguments in order to provide a solution to a dispute, pay increases are likely to be higher than through collective bargaining with a tough management strategy.[114]

The last pay determination process of concern is the payment system. The manner in which pay is related to labour input or output is critical to the magnitude of wage increases. Apart from procedurally-legitimate sources of pay increase, there are other familiar sources of rises. For instance, under PBR schemes, wage drift may arise because of lax output or wage controls yielding looser negotiated times and comparability adjustments, such as to payments in lieu.[115] Productivity agreements and productivity incentive schemes, similarly, may be overgenerous or induce leapfrogging.[116] To illustrate, many productivity agreements in the late 1960s were loosely implemented and controlled.[117] It has also been argued that the 1977-78 coal industry area incentive schemes were implemented with insufficient regard to the cost implications.[118] Other payment systems have potential defects too. Overtime pay is often unrelated to output because it is manipulated for non-productivity reasons, such as the need to offset low PBR earnings or to provide a steady additional source of income.[119] Increments may make control difficult as they are frequently automatic, and are often large relative to principal increases.[120] Generally speaking, control over payments is more easily secured under systems where pay and productivity levels are determined centrally and are not subject to the output-oriented pressures of the work milieu.

3.3 Bargaining strategy

Within the configuration of factors that comprise the economic and institutional environments, the strategies of pay negotiators impact on principal settlements and the day-to-day administration of pay. The influences affecting the strategies can be deduced from a simple bargaining model, which can be visualised as describing the forces determining the wage within the range of indeterminacy in the bilateral monopoly model. The bargaining strategies are not simple reflections of the two environments isolated in this framework: while strategies are affected by them, the strategies are of independent explanatory relevance too, being influenced also by social and political considerations.

In the model, for each negotiating team, each wage is associated with certain expected costs and benefits. The benefits depend on the extent to which the wage meets the objectives of the party, and on how important those objectives are. The costs depend on the costs of negotiating and enforcing claims and offers. Under assumptions of diminishing marginal utility of benefits, and of increasing negotiation and enforcement costs, the expected costs and benefits take on the shapes depicted in Diagram 2.2. Consequently, the expected net benefit functions are as in Diagram 2.3. If the sides attempt to achieve their objectives as best they can, they will demand or offer, and argue for, the wage which maximises expected net benefits.

As negotiations proceed, interactions change the valuations of the benefits and the costs of each wage. Primarily, reassessments are made of the costs of enforcing claims and offers. Objectives and their priority for the side may also change. New net benefit curves result. Adjustments to offers and claims are dictated, although in practice this will tend to happen at discrete intervals with lags, according to bargaining convention and tactics. For example, a speedy, or a double, concession might be interpreted as a sign of weakness by the other side, increasing its resolution and raising the costs to the conceding side of attaining any given wage. Clearly, a union (employer) negotiator would seek to avoid lowering (raising) the range of wages with positive net benefits in this way.

Eventually, agreement is reached. Both sides maximise the expected value of net benefits, as perceived at that time. Possible offer and claim functions appear in Diagram 2.4, showing sequential concessions and the final agreement.

Although simple, this model indicates three categories of factors underlying bargaining strategy. First, the pay criteria valued, and employed, by negotiators are fundamental to bargaining outcomes, working through the benefit functions in the model. Second, the bargaining power of each party affects the cost of achieving each wage. Third, what can be termed the politics of wage decisions influence the relative weight attached to each criterion by the party, the overall concern of the unit with pursuing those objectives, and hence, in the model, the value of benefits; through the willingness to take industrial action, the cost function is also affected. Political factors also characterise negotiations between the parties, causing them to re-evaluate the importance of their arguments, and their bargaining power.

3.3.1 Pay determination criteria

Negotiators attest to the power of argument in negotiations: for example Clive Jenkins and Barrie Sherman of ASTMS have said

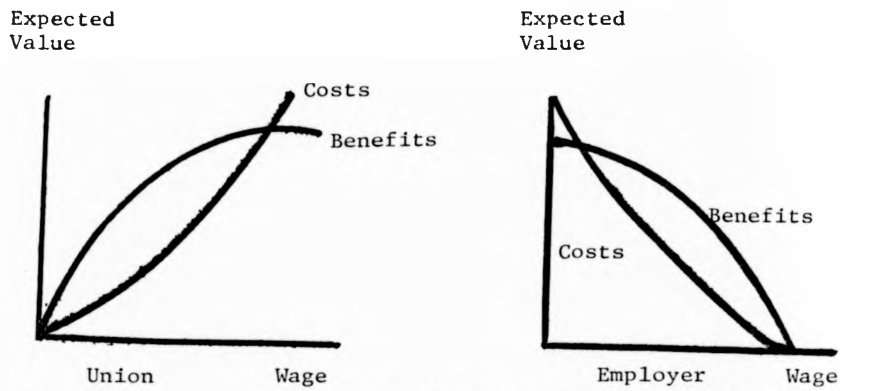

Diagram 2.2: Expected Values of Costs and Benefits of Wage Levels

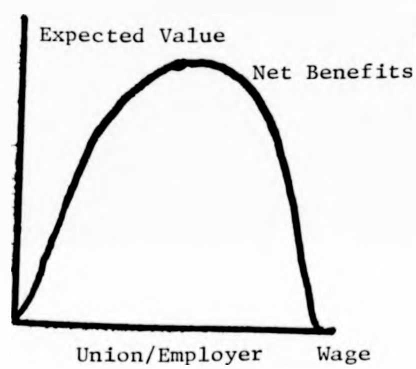

Diagram2.3: Expected Value Of Net Benefits Of Wage Levels

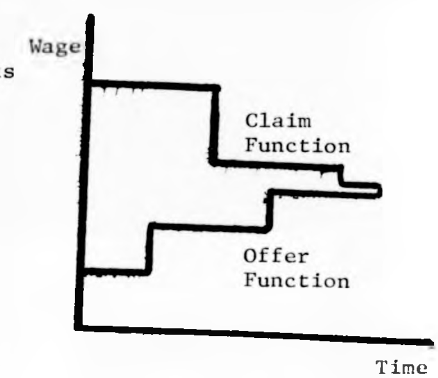

Diagram2.4: Offer and Claim Functions In Negotiations

A management is sensitive to charges of exploitation or parsimony, and if a well-argued and researched case is publicly aired it can prove a great source of embarrassment. Some employers are actually convinced by such a case and take the appropriate actions.121

The justifications for offers and claims at each stage of bargaining tend to rest on a limited number of economic and social principles, in conjunction with the setting in which the criteria are applied.

Economic arguments marshalled by negotiators reflect aspects of the economic environment. They may encompass the ability of the authority to pay, labour supply and demand, and productivity growth.

The ability-to-pay criterion is always potentially germane because the public purse is not bottomless. As Kahn has put it, in the public services

> tax- and rate-payers may at times seem like willing enough milch-cows, but there is a point beyond which it is injudicious to milk them.122

In public corporations, monopoly is not usually complete, there being substitutes for most goods and services, and there exist legislative and administrative requirements regarding financial performance, with the result that it is not possible to raise prices and increase deficits ad infinitum. In other words, the demand for labour is not perfectly inelastic, with the result that a pay-employment trade-off exists to some degree. It is certainly an exaggeration to assert, as do Wellington and Winter in the context of the US public sector, that 'no such restraint limits the demands of public employee unions.'[123]

Labour supply and demand can be a pertinent consideration whenever there is a need to change the quantity of labour employed, and thus to alter the level of services or output. In terms of the economic model, an upward shift in the demand for labour, or a reduction in the supply of labour, would serve to move the range of wage indeterminacy upwards, facilitating higher pay and actually creating pressure for negotiators to revise wages, which may or may not be recognised. Although it has been argued that varying job opportunities can allocate labour within SIC codes independently of wage changes, as indicated by low correlation coefficients between wage and employment changes, it remains the case that wage and employment changes do occur, and are significantly and positively related in the short run. Moreover, between SIC industries, the role of wages is much more powerful.[124]

Productivity may affect pay directly through payment systems, such as payment by results schemes and overtime payments, or more indirectly through annual pay settlements when pay increases may be awarded to reward past or promised rises in output. This is a likely influence on pay particularly when it is desired to improve manpower utilisation, cut costs, and thus reduce the price or tax burden on the public. However, owing to difficulties of measurement, the productivity criterion is liable to be confined to manual bargaining units.

While economic criteria may be actively important, there is strong reason to believe that social criteria may be heeded, being especially significant when financial constraints are less severe, that is, when groups are within the range of indeterminacy of wages but the elasticity of demand for labour is not very elastic. There exist in the UK economy pervasive notions of fairness. One is the maintenance of customary pay relationships. This idea may be promoted by the status hierarchy which tends to legitimise the pay structure.[125] Alternatively, equal percentage increases may be regarded as (rough) social justice.[126] Second, fairness is sometimes defined to mean fair differences according to work input, such as skill, responsibility, productivity and effort. This is based on a belief that it is morally right for pay to differ.[127] Third, fairness may imply equality of treatment, especially between similar situations,[128] but possibly in the overall income distribution.[129] Fourth, fairness may be couched in terms of real income growth, particularly keeping up with the cost of living.[130]

Fair pay comparisons may prompt changes in pay levels whenever notions of fairness are offended. Thus pay rises may reflect changes in the pay or work content of groups outside the bargaining unit; attitudes towards the distribution of income; or real wage aims. Further, rises may be caused by modifications to the notions of fairness adopted. However, there may be a social range of indeterminacy within which relative pay can vary without pressures for rectification.[131]

The first type of comparison, comparability, is always likely to be an argument in the public sector, for organisational and procedural reasons. The ultimate common 'ownership' of authorities, together with centralised bargaining by unions which cover several authorities, breed comparisons.[132] Politically, too, there is good reason to believe that comparability pressures are strong. Employers want to avoid embarrassment and so avoid 'getting out of line' with other, similar, employers. Union leaders wish to demonstrate that they have done a satisfactory job of negotiating in order to maintain union membership levels and bolster leadership support.[133] Further, government involvement in public sector pay bargaining may stimulate comparability. As Ross argues

> When the government participates actively in the determination of wages, the pressure for uniform treatment is almost irresistable. It is a cardinal tenet of democracy that the government must exercise its powers evenhandedly and dispense justice impartially.134

Comparisons between individual groups and the distribution of income are characteristically rooted in low pay arguments. However, their incidence is prone to be restricted since only low-paid groups can employ the argument seriously. Furthermore, it may not be of great weight since the orbits of comparisons tend to be limited. To illustrate from the manufacturing sector, it has been found that plant-level union officers tend to compare the position of their members to groups fulfilling similar tasks, rather than to higher-paid jobs.[135]

The third form of comparison, the 'real wage restraint' hypothesis, may well be a powerful element in pay strategies in view of the significant increase in real wage expectations that occurred, according to many observers, in the late 1960s. It has been argued that this was caused at bottom by unprecedented real wage rises in the postwar period, and frequent changes in money wages which deprived them of any customary importance.[136]

3.3.2 Bargaining power

While not denying the role of economic and social arguments, their potency in negotiations also depends on the force with which they can be supported. As Jenkins and Sherman have said:

> A persuasive presentation of a claim cannot always be said to be a total criterion of success. We would all like to think that we live in a world where reasoned argument wins the day. . . . Sophistication may not always be the most efficacious therapy in industrial relations: power matters too.[137]

Bargaining power here is taken to refer to the relative ability of management and unions to influence each other in the enforcement of claims and offers.[138] Thus, for example, while one side may be able to levy sanctions, its bargaining power also depends on the ability of the other side to respond. In addition, it should be noted that the definition refers to the power base and excludes the willingness of a side to use its strength, which, although pertinent to the use of power, is treated analytically as part of the politics of wage decisions in the following subsection.

The power base of a party has economic, strategic and political facets. Each aspect facilitates the enforcement of claims and offers through its implications for the costs of attaining each wage level.

Economic power relates to the economic factors which affect the costs of negotiating a wage, and the costs of the wage outcome itself. The negotiation costs tend to revolve around the costs of the bargaining process and the costs of industrial action. Bargaining process costs relate to the time and intensity involved, and the value of any delay in payment. The costs of action to individual workers depend in part on the availability of strike pay and State contributions such as social security benefits for strikers' families, and tax rebates.[139] Probably more important, according to previous studies, however, is other family income and savings.[140] For the employer, the economic sources of power during action are the profit and demand situations. High profits reduce the capital market constraint. When demand is low, employers may welcome a stoppage.[141] Assessments of long-term consequences of action for profits and demand may alter these short-term leanings, however.[142]

The economic-based cost of a wage settlement, apart from the extent to which it falls short of the desired criteria, which is reflected in the benefit function in the model, is the impact on employment. Smaller reductions in employment imply greater union power, and vice versa. The magnitude of the trade-off is fashioned by the economic environment. At a micro-level, the risk of being displaced from the authority upon a rise in wages is influenced by the Marshallian conditions which determine the elasticity of the demand for labour, namely the elasticity of product demand, the share of labour costs in total costs, the elasticity of supply of alternative factors, and the possibilities of factor substitution. But the effective cost of displacement depends on the macro-employment position too, for this affects the prospects of re-engagement by another employer.

Strategic power - that is, power stemming from the occupation of an advantageous position in the authority or in bargaining - is primarily determined by organisational and procedural factors. The organisation of production affects the degree of control unions have over essential parts of the production process, and thus their ability to pursue cost-effective action through limited sanctions which have widespread disruptive consequences. Union control is reduced when the production stage can be circumvented, perhaps by 'outsourcing'; and when multiple sources of supply exist, including plentiful stocks.

As the discussion of the organisational context indicated, the internal organisation of the parties also impinges on bargaining power. For instance, a lack of specialised industrial relations staff may reduce bargaining effectiveness. Further, the potency of sanctions, or the threat thereof, may be reduced if the real decision-makers are not represented at the bargaining table, for management negotiators may be less able to accede, thus increasing the costs to the union of pursuing any given wage.[143]

Bargaining structures and pay determination procedures play a part too. The levels and units of bargaining, as described earlier, affect the militancy of worker groups. The timing of negotiations in the year influences the disruptive potential of industrial action, where demand is seasonal. Pay systems dictate the scope for the exercise of power possessed by the parties at each level in the organisation. The use of third parties may neutralise power, and thereby strengthen or weaken the position of each side.[144] Meantime, legal procedures, both laws and codes of action, set out the official limits to industrial action.

Political power relates to the use of methods such as lobbying, demonstrations, the use of the media, and meetings with politicians, in order to use public or political pressure to induce the other side to concede more amenable terms. The greater the political power, the lower the cost of obtaining a given wage increase. Political pressure may simply yield additional support, or alternatively it may encourage the government to override management's stance, or else provide more finance to pay for higher rises. For example, in 1974 the nursing unions marched in London, and met with the Health Secretary and the Prime Minister about their pay claim; they were rewarded shortly afterwards with 'special case' status which produced larger rises than management had offered, and the necessary finance was provided by the government.[145] The use of political power is likely to be of general application in the public sector, for the government is the ultimate employer and the public the ultimate financier.[146]

3.3.3 Politics of wage decisions

Mediating the impact of the criteria and bargaining power are the politics of the intra- and inter-party bargaining processes. In each case, the variety of attitudes among participants and the process of compromise affect the individual and overall weight attached to the criteria by the party, and the willingness to use the party's bargaining power.

In intra-organisational decision-making over pay, as noted in the discussion of the organisational context, differences in attitudes may result from the functional roles represented. But the same role may be filled by very different individuals, distinguished by personal and political characteristics. That the types of incumbents influence the nature of decisions is readily evident in the fact that organisations (more and more) devote considerable resources to the recruitment and selection process, screening candidates for desirable characteristics which will increase organisational cohesion.[147]

Individual sources of attitudinal variation may emanate from different personal interests. Workers may be differently affected by wage increases. A relatively senior worker might prefer a large rise in order to boost his pre-retirement savings and possibly his pension entitlement; at the same time, seniority rights in lay-offs and terminations would make him worry little about the pay-employment trade-off. A more junior worker, conversely, would probably care about the employment effect and the implications of higher pay for the long-run viability of the authority.[148]

Second, individuals may have different psychological dispositions. Some are more ready than others to adopt militant stances. People also have varying attitudes to risk, viewing potential future net gains from a bargaining strategy with differing degrees of risk-aversion.[149] Some may be motivated by 'ludic' (seemingly absurd) objectives, such as a personal commitment to a particular wage or a desire to inflict punishment on the opposition.[150]

Third, political leanings may differ, either because of individual convictions or in response to the individual's constituency of support. For example, it has been argued that left-wing union leaders despise the attitude of responsibility in collective bargaining, in contrast to moderate leaders.[151] On the side of management, the political balance of government representatives in local authority units and some central government groups influences the stances taken.

Fourth, factional conflict within unions may prompt tougher bargaining of stances by the incumbent faction in order to demonstrate to the membership that it is serving its members well.[152] In a similar vein, on joint union negotiation committees, where unions compete for members, more aggressive demands are likely. For instance, NUPE spearheaded the 1970 local government manual workers' strike, with the GMWU and TGWU playing subordinate roles, in part to boost NUPE membership.[153]

Given the assortment of attitudes, the dynamics by which compromise is reached within the party fashion the side's position in negotiations. Apart from the organisational exigencies cited earlier, personal characteristics and tactics may be germane. Some participants may use their technical knowledge and expertise to advantage. Others may dominate through their powers of oratory, perhaps by persuasion or by strategic obfuscation.[154] Tactics may include the appropriate chairing of meetings, the ordering of agendas, and the judicious use of the rules of the body.[155] For example, in the NUM, pit incentive schemes were rejected by a Conference and a referendum in 1977, yet the schemes went ahead because the National Executive Committee circumvented the decisions by allowing individual areas to decide for themselves.[156] Finally, tactics may embrace lobbying and horse-trading.

In negotiations between management and unions, political factors can exert a separate influence on the stances the sides choose to take. Given the criteria, bargaining power, and internal organisational politics, different outcomes can result, first, from the general disposition of the two sides toward each other, and, second, from how their strategic differences are resolved.

Management and union styles, reflecting attitudes toward the opposition, affect the negotiation atmosphere. If there is a high level of trust, perhaps because the two sides share a pluralist perspective of industrial relations, there is likely to be less deception and exploitation of blunders; there may also be more understanding of the position of the other side. With low-trust relations, for instance rooted in a conflict between a management's unitary view and a union's pluralist prospective, more aggressive positions are likely.[157]

The resolution of offers and claims may be independently affected by the manner in which the parties negotiate within the procedures. As in the case of intra-organisational bargaining, personal qualities and tactics may be significant. For example, bluffing and strategically-timed referrals to the rank-and-file membership may toughen the apparent position of a party.[158] The importance of tactics, especially in bargaining involving professional and experienced negotiators, has been questioned, however.[159]

4. <u>Empirical Research Strategy</u>

To reach valid conclusions, the theoretical framework of categories of relevant variables must be complemented with an empirical research strategy which ensures the facts selected are pertinent to the categories and are accurate. A strategy consists of a research design and a set of research techniques. The research design specifies the logic of the empirical work, given the general methodology of the investigation. In order for the inquiry to meet the required standards, decisions have to be made regarding, in particular, the appropriate time-space sample selection, and the best combination of research methods. The techniques themselves refer to the specific factfinding operations.

4.1 Research design

The broad logic of the research strategy of this investigation is to accurately expose the causal relationships between the dependent and relevant independent variables, with reference to a wide-based intertemporal sample, and using a triangulation of research methods whenever suitable and possible.

The question of the sample is only an issue in the analyses of the impact of financial pay restraint policies. It is necessary to employ a sample design which minimises sampling error and selection bias within the available resources.[160] The sampling error should be small in order to produce more precise estimates. Selection bias should be avoided so that the results are representative of the population and the inter-temporal picture.[161]

To facilitate precision, large samples are required. Sample subgroups that are analysed should contain enough observations to allow satisfactory analysis of the relative importance of the independent variables. Of course, the factors may still be of variable importance across the population due to the intrinsic characteristics of the population members, but this is not the result of sampling. To obviate selection bias, the population can be stratified by pertinent variables and proportional samples taken, or else disproportional samples appropriately weighted in aggregate analyses.

The sample was extensive. Contact was made with most employers and unions (as well as with employer associations, such as the local authority associations, and professional negotiating bodies, such as the Local Authorities' Conditions of Service Advisory Board). This high sampling fraction was necessitated by the relatively small number of authorities comprising the public sector; by an interest in how different public sector subgroups, such as energy industries, were affected by the financial pay strategy; and by the large number of independent variables of interest. To take anything but a large sample, in percentage terms, would have led to very imprecise results. The practice adopted means that in fact the results are close to being as precise as possible.

To the extent it occurred, the sampling was disproportional. Many small public corporations were excluded on the conceptual grounds that they did not figure significantly in public sector wage inflation in either an accounting or an industrial relations sense. In addition, time and budget constraints led to the exclusion of a few authorities that were outside the South of England and the Midlands. It should also be noted that approximately ten percent of contacts failed to cooperate, and that these were disproportionately nationalised industry managements. However, it was generally possible to successfully contact the other sides in these organisations and so gain one perspective on events. Overall, these sources of disproportional sampling should not be a matter for concern since they are either justifiable, insignificant, or counteracted, respectively. The people contacted are listed in the appendices. It was attempted to contact people associated with the largest or most significant units in the authorities. Details of negotiations in other units were gleaned from these respondents: usually they were in touch with other bargainers, and in management's case were often physically present in other negotiations.

Over time, the sampling was more disproportional: the bulk of the empirical research was carried out during 1980 and 1981. However, supplementary inquiries were carried out in the summers of 1982 and 1983, albeit on a narrower scale, in order to update the analysis. Thus there is no apparent reason to worry about the representativeness of the thrust of the thesis argument to actual developments between 1979 and 1983.

In the samples analysed, a combination of research techniques was employed.[162] This was done because every technique, however well it is used, has shortcomings, causing the accuracy of the conclusions to suffer. The methods may be imprecise; biased; unreliable, in the sense of yielding inconsistent results over time and between researchers; or narrow in scope, being unable to detect the relevance of all the variables of interest. The use of multiple methods, first, allowed cross-checks to be carried out to attempt to counter bias and unreliability. Second, this approach allowed each method to be supplemented by others, thereby, it is hoped, improving the precision and the comprehensiveness of the analysis.

As has been observed:

> So if the restraints on validity sometimes seem demoralising, they remain so only as long as one set of data, one type of method, is considered separately. Viewed in consort with other methods, matched against the available outcroppings for theory testing, there can be strength in converging weakness.163

4.2 Research techniques

This study triangulated three techniques: archival work; interviewing; and quantitative data analyses. In line with the preferred inductive approach, the emphasis was on the first two methods. In the investigation of the first two issues, unobtrusive measures were the main research tool, but, in researching the third issue, both interview and archival data were heavily relied upon in combination. The quantitative techniques were also used in the policy impact discussion, first to describe the pattern of wage settlements, and later to provide a deductive explanation as a cross-check and supplement to the inductive qualitative explanation.

In more detail, the archival work involved the analysis of both published and unpublished data. The published material included the literature on related subjects, union, employer and government documents and economic statistics. Unpublished matter mainly took the form of negotiation records. In addition, intra-organisational documents were obtained in some cases, usually from unions.

The archival work was a very productive part of the research effort.

Two potential problems might be raised. One is the question of bias. This is not significant here, however. The unpublished documents were obtained from a wide range of authorities. Negotiation records were jointly agreed by management and unions. The published material came from both sides and the government.

A second problem might be the selectiveness of the material in the sense of misplaced emphases (without necessarily any bias toward one party). As Ross has remarked regarding negotiation records:

> In specific cases, all the conventional standards are invoked; but some have a real weight in the resulting determination, whereas others have no weight at all. The most elaborate logical and statistical demonstrations are presented in support of arguments which are wholly devoid of effect; but often the crucial factor has its place in the oral arguments and written documents of the proceeding--including the arbitrator's award. In fact there is probably no field of social inquiry in which the written word is more misleading than the negotiation and adjudication of wage rates.[164]

This point is well taken. It is hoped that the use of interviews make up for any deficiencies in written records.

The interviews were conducted primarily with management and union negotiators (separately). Also interviewed in some cases were managers from financial departments, and managers from decentralised levels of authorities who were responsible for advice and implementation of agreements. In total, over 80 interviews were conducted, averaging over two-and-a-half hours each. A questionnaire was used as the basis of the discussion, but it was administered in a flexible order, with additional questions where appropriate. There were no suggested answers. With experience, especially over the first dozen interviews, the questions were redefined and restyled.

First-hand experience was an extremely valuable data source to tap. But, of course, interview techniques are open to familiar challenge. First, there may have been respondent error. One source was problems of recall. Attempts were made to circumvent this in the present study by reminding the interviewee of the government policy or the settlement in the year of interest. Inevitably, though, some details were still not recalled. Respondents also tended to gloss over certain aspects, especially the internal politics of decision-making, in spite of guarantees of anonymity, on the apparent grounds that it was unprofessional to deviate from the principle of collective responsibility. This part of the analysis may consequently be less strong than the rest. Interviewees may also have been giving inaccurate accounts because of the 'guinea pig effect' whereby the awareness of being studied stimulated responses not previously felt.[165] Similarly, some may have redefined their roles (of which each person has many), perhaps from a bargainer to a public relations officer.[166] The more blatant examples could be taken into account.

Error or bias on the side of the interviewer may also have arisen from his personal characteristics: age, sex and class, for example, have been demonstrated to influence responses.[167] Also, the conduct of the interviews may have subtly biased the results, such as through the tendency of respondents to endorse statements by interviewers rather than to reject them.[168] It is fully realised that the interview is necessarily a social situation and thus is open to these influences. It is impossible to judge the damage inflicted by these shortcomings of the method. However, everything was done to avoid them, such as through a neutral appearance, and the elimination of obvious question bias.

The details of the statistical and econometric techniques are outlined in the relevant sections. The quantitative indications of effect and significance derived using these methods are very informative. But they, too, have shortcomings. In particular, the data were frequently inappropriate in their original form, or else they did not exist, especially in the case of institutional variables. This problem was minimised by various data adjustments and the formulation of proxy variables, but in some cases omissions could not be avoided. A second deficiency of the econometric approach was that the specification of a counterfactual was a very difficult task, and could only be done in a rough-and-ready fashion. In both cases, the response was to do the best that could be done with the method, and to interpret the results with care.

Each of the three methods fulfils a valuable function in the investigation. The candour with which potential and actual deficiencies of method are recognised is intended to comfort rather than disturb. The problems were acknowledged in the research process and corrected as much as possible. No more can be expected of empirical work in the social sciences. Individually, the methods still provide results that appear valid, and, combined, the methods seem to at least approach the desired aims of precision, unbiasedness, reliability and comprehensiveness.

5. Summary

This chapter has sketched and justified the approach to the research into financial pay restraint policies in the public sector. First, the methodology of the study involves carrying out empirical research, guided by a broad theoretical framework. The emphasis is on induction, although a deductive approach is used when the results can be cross-checked by other methods. Second, the field of study is confined to authorities that are publicly owned and controlled, albeit with variations in the public interests served, the source of public finance, and the procedures for accountability. Third, the general theoretical framework of pay determination emphasises industrial relations, economic and political factors. Pay is seen as heavily influenced by the economic-political environment and the organisational and procedural contexts, but also by bargaining strategies. Fourth, the research strategy is to uncover data relevant to the issues within a broad sample of authorities in the UK. Three research methods are used in combination to minimise individual shortcomings: archival work, interviewing, and quantitative data analysis.

The foundations of the thesis having been laid, the superstructure of the thesis can be erected. The first phase is to analyse the forces prompting State intervention in public sector pay determination in the 1979-83 period.

Notes

1. For example, see M. Bulmer, 'The Practice of Theorising: Introduction and Further Reading', in Bulmer (ed.), Sociological Research Methods, .R Macmillan 1977, chap. 19.
2. C. W. Mills, The Sociological Imagination, OUP 1959, p. 61; R. Bierstadt, 'A Critique of Empiricism in Sociology', in Bulmer (ed.), op. cit., p. 51.
3. Bulmer, 'Introduction: Problems, Theories and Methods in Sociology', in Bulmer (ed.), op. cit., pp. 1-4; Bierstadt, op. cit., pp. 49-51.
4. Bulmer, op. cit., Chap. 19.
5. J. Bensman and A. J. Vidich, 'Social Theory in Field Research', in Bulmer (ed.), op. cit., pp. 260-61; Bulmer, &'Sociological Theory in Empirical Research: Introduction and Further Reading', in Bulmer (ed.), op. cit., pp.37-41.
6. Bulmer, op. cit., pp. 3-4.
7. R. K. Merton, Social Theory and Social Structure, Free Press 1968, pp. 143-44.
8. Ibid.
9. Ibid., pp. 157-65.
10. Public sector links are ably reviewed in, for example, Standing Commission on Pay Comparability, General Report, Report No. 9, Cmnd. 7995, HMSO 1980, Chapter 2; A. W. J. Thomson and P. B. Beaumont, Public Sector Bargaining: A Study of Relative Gain, Saxon House 1978, pp. 51-60.
11. The Right Approach To the Economy, op. cit.; The Conservative Manifesto, op. cit. For a discussion of the operation of the policy, see W. A. Brown and P. Nolan, 'The Context of the Next Incomes Policy', Policy Studies, Policy Studies Institute, Jan. 1981.
12. R. J. Liddle and W. E. J. McCarthy, 'The Impact of the Prices and

Incomes Board on the Reform of Collective Bargaining', BJIR 1972, p. 437; C. Balfour, Incomes Policy and the Public Sector, Routledge and Kegan Paul 1972, Chapter 7; A. Dean, 'Public and Private Sector Pay and the Economy', in J. L. Fallick and R. F.Elliott (eds.), Incomes Policies, Inflation and Relative Pay, Allen and Unwin 1981, especially pp. 57-63.

13. The exceptions include M. Abramovitz and V. F. Eliasberg, The Growth of Public Employment in Great Britain, Princeton 1957; T. M. Ridley, 'Note on the Extent of the Public Sector of the Economy in Recent Years', Journal of the Royal Statistical Society Part II 1951, pp. 207-13; D. Winchester, 'Labour Relations in the Public Sector in the United Kingdom' in C. Rehmus, Public Employment Labor Relations, Ann Arbor 1971, pp. 63-81; E. Lomas, 'Employment in the Public and Private Sectors 1974-1980', Economic Trends No. 325, November 1980, pp. 104-109; R. Maurice, National Accounts Statistics: Sources and Methods, HMSO 1968, Chapters VIII-X.

14. For example, P. M. Jackson, The Growth of Public Sector Employment: The Case of the UK, Institute for Fiscal Studies 1976, C. J. F. Brown, and T. D. Sheriff, 'De-Industrialisation: A Background Paper' in F. T. Blackaby (ed.), De-Industrialisation, Heinemann, 1974, pp. 233-62; A. R. Thatcher, 'Labour Supply and Employment Trends' in Blackaby, op. cit., pp. 26-48; T. E. Chester, 'The Public Sector--Its Dimensions and Dynamics', National Westminster Bank Review, February 1979, pp. 31-45; Civil Service Department, The Civil Service: Introductory Factual Memorandum, HMSO 1980; R. Bacon and W. Eltis, Britain's Economic Problem: Too Few Producers, Macmillan 1976; A. T. Peacock and J. Wiseman, The Growth of Public Expenditure in the United Kingdom,

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15. Abramovitz and Eliasberg, op. cit., p. 100.

16. Ridley, op. cit., p. 107.

17. Lomas, op. cit., p. 107.

18. This applies, for instance, to Wilkinson and Jackson, op. cit.

19. Winchester, op. cit., p. 64.

20. For example, Chester, op. cit.; Jackson, op. cit.; Brown and Sheriff, op. cit.; Thatcher, op. cit.

21. Peacock and Wiseman, op. cit.; Ridley, op. cit.; CSD, op. cit.; Elliott and Fallick, op. cit.; Bacon and Eltis, op. cit.; Chester, op. cit.; Wilkinson and Jackson, op. cit.; Lomas, op. cit.; Winchester, op. cit.

22. This applies especially to Abramovitz and Eliasberg, op. cit.; Ridley, op. cit.; and Peacock and Wiseman, op. cit.

23. See A. W. J. Thomson and P. B. Beaumont, Public Sector Bargaining: A Study of Relative Gain, Saxon House 1981, pp. 37-38; New Earnings Survey, Part B: Coverage by Agreement, HMSO various years; Elliott and Fallick, op. cit., pp. 43-45 and 75-77.

24. Report on Non-Departmental Bodies, Cmnd. 7797, HMSO 1980, paras. 11, 71-73; E. Lomas, op. cit., p. 107.

25. A. Doig, 'The Machinery of Governments and the Growth of Governmental Bodies', Public Administration 1980, pp. 310-12; Sir N. Chester, 'Fringe Bodies, Quangos and All That', Public Administration 1980, pp. 51-54; C. Hood, A. Dunsire and K. S. Thomson, 'So You Think You Know What Government Departments Are . . .?', Public Administration Bulletin No. 27, August 1978, pp. 20-32; C. C. Hood and W.J. M.

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27. CSD, Civil Service Statistics 1980, HMSO 1980; Parliamentary Commissioner for Administration, Annual Report for 1980, HMSO 1981, pp. 46-47.

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29. Report on Non-Departmental Bodies, op. cit., p. 1, para. 1.

30. Bowen, op. cit., p. 3.

31. For instance, P. Holland and M. Fallon, The Quango Explosion, Conservative Political Centre 1978; P. Holland, Quango, Quango, Quango, Adam Smith Institute 1978; CSD, A Directory of Paid Public Appointments Made by Ministers 1978, HMSO, 1978.

32. Lomas, op. cit., p. 104, Table 1.

33. Britain 1981, op. cit., p. 67.

34. For details, see ibid., p. 63; Municipal Yearbook, op. cit.; Local Government Handbook: England and Wales, The Labour Party 1981, esp. Chapter 1.

35. Lomas, op. cit., p. 104, Table 1. Other breakdowns can be found using Joint Manpower Watch data, quarterly in the Dept. of Employment Gazette.

36. NEDO, A Study of UK Nationalised Industries, Appendix Volume, HMSO, 1976, pp. 80-81.

37. Ibid., p. 3.

38. See Public Money, June 1981, op. cit., pp. 59-61.

39. Lomas, op. cit., p. 104, Table 1.

40. T. S. Kuhn, The Structure of Scientific Revolutions, 2nd ed., University of Chicago Press 1970, pp. 4-5; S. Young, 'Industrial Relations: A Paradigmatic Analysis', Relations Industrielles 1982, p. 33

41. For example, see M. S. Estey, 'Unity and Diversity in Industrial Relations Education: The Report of the IRRA Survey', Proceedings of the Thirteenth Meeting of the IRRA, 1960, IRRA 1961, p. 99. Also note that major surveys of the development of industrial relations research have avoided referring to the subject as a discipline: G. S. Bain and H. A. Clegg, 'A Strategy for Industrial Relations Research in Great Britain', BJIR 1974, pp. 90-113; T. A. Kochan, Collective Bargaining and Industrial Relations, Irwin 1980, Chapter 1.

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APPENDIX 1: CENTRAL GOVERNMENT

Appendix 1.1

Government Departments in April 1979

Agriculture Fisheries and Food
Cabinet Office
Central Office of Information
Charity Commission
Civil Service Department
Crown Estate Office
Customs and Excise, Board of
Defence
Education and Science
Employment
Energy
Environment
Comptroller and Auditor General, Dept. of
Export Credits Guarantee Dept.
Fair Trading, Office of
Foreign and Commonwealth Office
Registry of Friendly Societies
Government Actuary's Dept.
Health and Social Security
Home Office
Industry
Inland Revenue
Intervention Board for Agricultural Produce
Land Registry
Law Officers Dept.
Lord Chancellor's Dept.
National Debt Office
National Savings, Dept. for
Ordnance Survey
Overseas Development Ministry

Paymaster General's Office
Prices and Consumer Protection
Office of Population Censuses and Surveys
Privy Council Office
Director of Public Prosecutions, Dept. of
Public Record Office
Public Trustee Office
Public Works Loan Board
Her Majesty's Stationery Office
Trade
Transport
Treasury
Treasury Solicitor's Dept.
Property Services Agency
Queen's and Lord Treasurer's Remembrancer
Scottish Office
Agriculture and Fisheries for Scotland
Scottish Economic Planning Dept.
Scottish Development Dept.
Scottish Courts Administration
Scottish Home and Health Dept.
Scottish Education Dept.
Scottish Record Office
Registrar General of Births, Marriages and Deaths in Scotland
Registers of Scotland, Dept. of
Welsh Office
Northern Ireland Office
Northern Ireland Court-Service Administration
House of Lords Offices
House of Commons Offices and Commission
Office of the Parliamentary Commissioner

Notes: Crown Agents and HMSO became public corporations in 1980.

Source: Derived from *Supply Estimates 1979-80*, HC266, HMSO, 1979.

Appendix 1.2

Authorities, Bargaining Structure, and Interviewees

Authorities and Bargaining Units in 1979	Employment in Mid-1979	Interviewees
Govt. Departments (plus Royal Ordnance Factories, Manpower Services Commission, Health and Safety Executive, and Science and Victoria and Albert Museums)	720,000	
Civil Service National Whitley Council (NWC)		CSD Deputy Secretary CSD Under Secretary CSD Principal Dept. of Energy: Principal MAFF Principal SCPS Research Officers CPSA Research Officer CSU General Secretary IPCS Research Officer
Joint Coordinating Committee for Govt. Industrial Establishments		CSD Under Secretaries CSD Principal MOD Head of Central Management TGWU National Secretary EETPU National Officer
Govt. Depts., Parliament, Courts, and Armed Forces		
Top Salaries Review Body		OME Director
Armed Forces		
Armed Forces Review Body	300,000	OME Director
UK Atomic Energy Authority	13,461	
Whitley Council for Non-Manual Workers Joint Industrial Council for Manual Workers		AEA Manpower and IR Officer TGWU National Secretary IPCS Chairman, TU side IPCS Secretary, TU side

Universities	104,000	Warwick Univ.: Academic Registrar Birmingham Univ.: IR Officer
University Teachers	46,500	CVCP Assistant Secretary AUT Deputy General Secretary
Central Council for Non-Teaching Staffs:	57,500	UCNS Secretary and IR Officer
Jt. Committee for Clerical and Related Administrative Staff		NALGO Organising Officer
Jt. Committee for Technical Staffs		ASTMS National Officer
Jt. Committee for Computer Operating Staffs		ASTMS National Officer
Jt. Committee for Manual and Ancillary Staffs		NUPE National Officer
National Health Service	1,197,000	DHSS Pay Information Unit COHSE Research and PR Officer
Administrative and Clerical Staffs NWC	117,000	DHSS Management Side Secretary NALGO Assistant Organising Officers
Ancillary Workers NWC	175,000	DHSS Management Side Secretary NUPE National Officer TGWU National Secretary
Nurses and Midwives NWC	404,000	DHSS Management Side Secretary NALGO Assistant Organising Officer COHSE National Officer
Optical NWC	10,000	DHSS Management Side Secretary ASTMS National Officer
Pharmaceutical NWC	3,000	DHSS Management Side Secretary ASTMS National Officer
Professional and Technical (A) NWC	30,000	DHSS Management Side Secretary

		NALGO Assistant Organising Officer ASTMS National Officer
Professional and Technical (B) NWC	35,000	DHSS Management Side Secretary ASTMS National Officer
Ambulancemen NWC	17,000	DHSS Management Side Secretary NUPE National Officer TGWU National Secretary
Maintenance Craftsmen	30,000	DHSS Principal EETPU National Officer
Doctors' and Dentists' Review Body	82,000	DHSS Principal OME Director BMA Economic Research Officer
<u>HMSO</u>	8,000	
Printers Warehousemen Non-industrial Staff		
<u>Principal Non-Departmental Bodies:</u>		
<u>Police Authority for N. Ireland</u>		
Police Negotiating Board (UK)	13,362	See Appendix 2
<u>Research Councils</u>	10,000	
Non-Manual Workers NWC Joint Industrial Council: Manual Workers Maritime Staff		
<u>Central Institutions</u>	3,552	
Academic Staffs Salaries Committee Non-Teaching Staff		
<u>Colleges of Education (Scotland)</u>	2,630	

National Joint Committee for Academic Staff Non-Academic Staff	
Remploy Ltd	10,577
British Council	4,459
General Lighthouse Authorities	2,868
British Library	2,282
Enterprise Ulster	2,250
Crown Agents	2,016
Public Health Laboratory Services Board	2,014

Notes:

1. Only non-departmental bodies employing more than 2,000 individuals are included.
2. The bargaining unit employment totals may not precisely aggregate to authority totals due to the use of different sources and rounding errors.

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APPENDIX 2

LOCAL AUTHORITIES

AUTHORITIES, BARGAINING STRUCTURE, AND INTERVIEWEES

Authorities and Bargaining Units	Employment	Interviewees
Principal Authorities:		
England: 6 metropolitan counties 39 non-metropolitan counties Greater London Council 36 metropolitan districts 296 non-metropolitan districts 32 London boroughs Corporation of City of London Wales: 8 non-metropolitan counties 37 non-metropolitan districts Scotland: 9 regional authorities 53 district authorities 3 unitary island authorities		LACSAB Under Secretary ADC Assistant Secretary (Personnel) ACC Policy Under Secretary Sheffield MBC Chief Personnel Officer
Bargaining Units:		
National Joint Council (NJC) for Administrative, Professional, Technical and Clerical Staff: England and Wales	500,000	NALGO Organising Officer
ibid.: Scotland	65,000	
NJC for Local Authorities' (LA) Services (Manual workers): England and Wales	1,000,000	LACSAB Assistant Secretary GMWU National Industrial Officer
ibid.: Scotland	120,000	
Joint Negotiating Committee (JNC) for LA Services (Building and Civil Engineering): England and Wales		LACSAB Assistant Secretary UCATT National Organiser
ibid.: Scotland		

JNC for Local Authorities' Services (Engineering Craftsmen): England and Wales		LACSAB Assistant Secretary CSEU General Secretary
ibid.: Scotland		
Police Negotiating Board	140,000	LACSAB Assistant Secretary Police Fed. Secretary PR Officer Pensions Officer
NJC for LA Fire Brigades	39,000	LACSAB Assistant Secretary FBU National Officer
ibid.: Officers' Committee		
Burnham Primary and Secondary Committee	500,000	LACSAB Assistant Secretary NUT Salaries Official
Burnham Further Education Committee	78,000	LACSAB Assistant Secretary NATFHE Negotiations Secretary
Scottish Teachers' Salary Committee	64,000	
JNC for Former Approved Schools and Reward Homes in England and Wales		
JNC for Further Education Teachers Assigned to Prison Dept. Establishments		
Soulbury Committee (LEA-based advisers)		
JNC for Youth Workers and Community Centre Wardens		
JNC for Chief Executives of Local Authorities		
JNC for Chief Officers of Local Authorities		

JNC for Local Authorities' Services (Engineering Craftsmen): England and Wales		LACSAB Assistant Secretary CSEU General Secretary
ibid.: Scotland		
Police Negotiating Board	140,000	LACSAB Assistant Secretary Police Fed. Secretary PR Officer Pensions Officer
NJC for LA Fire Brigades	39,000	LACSAB Assistant Secretary FBU National Officer
ibid.: Officers' Committee		
Burnham Primary and Secondary Committee	500,000	LACSAB Assistant Secretary NUT Salaries Official
Burnham Further Education Committee	78,000	LACSAB Assistant Secretary NATFHE Negotiations Secretary
Scottish Teachers' Salary Committee	64,000	
JNC for Former Approved Schools and Reward Homes in England and Wales		
JNC for Further Education Teachers Assigned to Prison Dept. Establishments		
Soulbury Committee (LEA-based advisers)		
JNC for Youth Workers and Community Centre Wardens		
JNC for Chief Executives of Local Authorities		
JNC for Chief Officers of Local Authorities		

JNC for Chief Officials of Local
Authorities (Scotland)

JNC for Coroners

JNC for the Fees of Doctors
Assisting Local Authorities

JNC for Justices' Clerks

JNC for Justices' Clerks'
Assistants

JNC for the Probation Service

NJC for Workshops for the Blind

Scottish JNC for LA Water
Supply

Standing Conference for Engineers

Standing Conference for Heating,
Ventilating and Domestic Engineers

Whitley Council for New Towns Staff

Whitley Council for the Staffs of
Industrial Estates Corporations
and Development Agencies

Source: Derived from ACAS, Industrial Relations Handbook, op. cit.

APPENDIX 3

PUBLIC CORPORATIONS

AUTHORITIES, BARGAINING STRUCTURE, AND INTERVIEWEES

Authorities and Bargaining Units in 1979	Employment 1978-79	Interviewees
Nationalised Industries:		
British Aerospace	70,200	
Division or site manual workers		BAe Personnel Services Manager
Division or site non-manual workers		
British Airports Authority	7,500	
Joint Negotiating and Consultative Committee	7,500	
Subcomm. 1: Non-industrial staff		
Subcomm. 2: Industrial Staff		TGWU National Secretary
Subcomm. 3: Fire Service Personnel		
British Airways Board	57,000	
NJC for Civil Air Transport	57,000	TGWU National Secretary
(11 National Sectional Panels)		BALPA IR Officer
British Gas Corporation	102,900	
National Joint Industrial Council (NJIC) for the Gas Industry (manual workers)	40,000	GMWU National Industrial Officer
Craftsmen's Committee	1,200	
NJC for Gas Staffs and Senior Officers	58,000	NALGO Organising Officer
NJC for Higher Management	2,500	NALGO Organising Officer

British National Oil Corporation	1,000	
British Railways Board	182,200 (240,000 incl. subsidiaries)	
1956 Machinery of Negotiation (Salaried and Conciliation Staff)		BRB Principal IR Officer TSSA Research Officer NUR Assistant to Assistant General Secretary ASLEF Negotiating Officer
Railway Shopmen's National Council (NC)		
Railway Workshop Supervisory Staff NC		
Railway Professional and Technical Staff NC		
Management Staff National Joint Committee		
Other: Freightliners Ltd. JNC National Maritime Board (Sealink) BTH Ltd. NC BTH Ltd. Staff NC Hovercraft Staff NC British Transport Police Force Conference		
British Shipbuilders	84,000	
Manual and Staff Workers		CSEU General Secretary
Management		
British Steel Corporation	186,000	
Joint Negotiating Committee		BSC Manager, Pay

		and Productivity ISTC Research Officer
British Transport Docks Board	11,600	
NJC for the Port Transport Industry (dockworkers)		TGWU National Secretary
Other:		
Other Manual Employees		
Clerical and Administrative Workers		NALGO Organising Officer
Technical Staff		
Police		
Southampton Workers		
British Waterways Board	3,400	
NJC for Wages Grades		
NJC for Salaried and Senior Staff		NALGO Organising Officer
JNC of the National Association of Inland Waterway Carriers and the TGWU		
Electricity Council (including CEGB and Area Boards)	159,800	
NJIC (industrial staff)	93,500	GMWU National Industrial Officer
National Joint Board (technical staff)	29,500	EMA Research Officer
NJC (non-manual staff)	50,000	NALGO Organising Officer
National Joint Committee (Building and Civil Engineering)	2,800	
National Joint Committee (Managerial and Higher Executive Grades)	1,700	NALGO Assistant Organizing Officer
National Bus Company	64,300	

Manual Workers		TGWU National Secretary
White Collar Staff		NALGO Organising Officer
<u>National Coal Board</u>	234,900	
Joint National Negotiating Committee (industrial grades)		NCB Director of Wages NUM IR Officer
Clerical and Junior Administrative Staff		
Management		
<u>National Freight Corporation</u>	36,900	
BRS Machinery: National Joint Negotiating Committees (NJNC) for: Operating Grades Engineering, Maintenance and Repair Grades Staff Employees		
National Carriers Ltd.: Joint Negotiating Committees for: Operating Grades Engineering, Maintenance and Repair Grades Staff Employees		
<u>Post Office</u>		PO Pay and Negotiations Officer BT Head of Pay and Productivity
Postmen, postal officers and telephonists grades	200,000	UCW Assistant Research Officer

Engineering and technical grades	126,000	POEU Assistant Research Officer
Clerical grades	38,000	
Management and certain supervisors	22,000	
Subpostmasters/mistresses	20,000	
Middle management	20,000	
General management grades	7,000	
Telephone sales representatives	1,000	
<u>Scottish Transport Group</u>	13,800	
National Council for the Omnibus Industry (drivers, conductors and garage staff)		
Skilled maintenance staff		
Coaching operators		
White-collar Staff		
<u>North of Scotland Hydro-Electric Board</u>	4,100	
<u>South of Scotland Electricity Board</u>	13,700	
<u>Other Public Corporations:</u>		
<u>Bank of England</u>		
Non-print staff	5,500	
Printers	1,500	
<u>British Broadcasting Corporation</u>		
Musicians, Orchestras		

Performers, Freelancers Other Staff Groups	27,000	BBC Controller, Remuneration and IR ABS Assistant General Secretary
Cable and Wireless Ltd.		
Civil Aviation Authority	7,471	
Commonwealth Development Corporation	380	
Covent Garden Market Authority	105	
Development Board for Rural Wales	82	
Highlands and Islands Development Board	249	
Housing Corporation	600	
Independent Broadcasting Authority	1,337	
Land Authority for Wales	76	
National Dock Labour Board	523	
National Enterprise Board	89	
National Film Finance Corporation	11	
National Ports Council	80	
National Research Development Corporation	182	
New Town Development Corporations and Commission	8,763	
Northern Ireland		

Development Agency	48	
Northern Ireland Electricity Service		
Northern Ireland Housing Executive		
Northern Ireland Transport Holding Company		
Passenger Transport Executives and London Transport Executive		
LTE: Railway Negotiating Committee		LTE IR Officer (Rail) ASLEF Negotiating Officer
LTE: Bus Workers		LTE IR Officer (Buses) TGWU National Secretary
Joint Negotiating Committee for Non-Manual Workers (PTEs)		NALGO Organising Officer
Non-Manual Workers (by individual PTE in 3 PTEs)		
Manual Workers (by individual PTE)		
Property Services Agency (Supplies)		
National Water Council and Regional Water Authorities	70,371	NWC IR Officer Severn-Trent WA Director of Finance

NJIC for the Water Service (manual workers)		TGWU National Secretary GMWU National Industrial Officer
ibid. (craftsmen)		
NJC for Water Service Staffs (non-manual workers)		NALGO Organising Officer
JNC for Water Service Senior Staffs	500	NALGO Organising Officer
National Joint Committee for Chief Officers		
Royal Mint	1,399	
Royal Ordnance Factories	23,057	
Scottish Development Agency	660	
Scottish Special Housing Association	3,131	
Trust Ports		
Welsh Development Agency	480	

Notes:

1. In 1980, the Crown Agents and HMSO became public corporations. British Aerospace was reclassified as a private sector company in 1981 when a minority holding was sold.

2. Since 1979, several corporations have significantly contracted in size, especially BSC which has halved its employment.

3. Some authority totals may not equal the bargaining unit totals due to the use of different statistical sources and rounding errors.

Sources:

Lomas, op. cit., pp. 108-9.

Civil Service Statistics, op. cit., Table 1.

Report on Non-Departmental Bodies, Cmnd. 7797, HMSO 1980, p. 182.

ACAS, Industrial Relations Handbook, op. cit.

G. Bowen, Survey of Fringe Bodies, CSD 1978.

Supply Estimates 1979-80, Memorandum Table 6B.

PART II

ISSUE 1:

THE STIMULI TO INTERVENTION IN PUBLIC SECTOR PAY DETERMINATION IN 1979

Chapter 3

Government Rationales and Inflationary Conditions

The Conservative Party was convinced it was necessary to control wage inflation. As Mrs. Thatcher stated:

> There is no doubt - we all know it - of the need to contain the increase in wages within the increase in production.1

In this, the Conservatives were no different from their predecessors. As Sir Geoffrey Howe noted, it was common ground between the parties that any government

> must secure wider understanding and a wider sense of reality and responsibility in the collective bargaining process.2

In spite of the similarities between the immediate objectives of the two political parties, the motivations were somewhat different. This chapter therefore examines the particular factors that stimulated the Conservative Government to attempt to control public sector pay. Section 1 notes the importance of the Government's ultimate objectives of the control of price inflation and public expenditure, and explains the perceived relevance of public sector wage inflation to their achievement. Section 2 considers the strength of the underlying forces promoting wage inflation in 1979. Reference is made to the economic and political environment, the institutional context, and the pay strategies of negotiators.

1. <u>The Rationales For Controlling Public Sector Pay</u>

The reduction of price inflation and the curbing of the growth of public spending comprised the two primary objectives of the Conservative Government. Success in achieving each hinged in part on public sector pay bargaining.

1.1 The control of price inflation

The need to counter inflation was deemed fundamental to the Government's economic programme:

> The first essential in economic management is the conquest of inflation. This must be the foundation of a more stable economic environment.[3]

The zeal with which the objective was pursued was unparallelled in recent years. The Chancellor of the Exchequer later said:

> Only two decades or so ago an inflation rate of 5 per cent would have been considered too high. It _is_ too high. The Government's ultimate objective is price stability....[4]

At heart, the chief concern was competitiveness. The prospects for exports at the time the Government took office were not encouraging. The quarterly CBI Industrial Trends surveys of January and April 1979 had recorded a fall in confidence concerning export prospects, and a relatively high percentage of respondents mentioned 'prices relative to those of overseas competitors' as a factor that was expected to prejudice export orders over the following few months.[5] Indeed, the April Retail Price Index (RPI) had shown an increase in prices of 10.1 per cent over the previous 12 months. It was the first time it had been in double-digits since December 1977, and it had risen steadily since October 1978 when it was 7.8 per cent.[6] In 1978 III, UK normal unit costs relative to the average for competing countries were said to be 12 per cent higher than in 1975 and 30 per cent higher than in 1976.[7]

Competitiveness was regarded as critical owing to its implications for domestic prosperity. Competitive pricing would lead to greater sales, and hence greater output and employment, as well as higher real incomes.[8]

In addition, price inflation was believed to have other deleterious consequences. Uncertainty about future absolute and relative prices would make forecasts of demand and profitability difficult, with the result that investment and output would be depressed.[9] Unnecessarily high pay claims might also occur due to uncertainty, destroying jobs.[10] Inflation would also dampen consumption if savings were increased for precautionary motives or to maintain real wealth holdings. Investment would be reduced by cash flow problems caused by higher nominal interest rates. Transactions costs would also rise or cash management become more involved.[11] As well as efficiency costs, distributional consequences would also follow as factor returns increased at different rates due to differences in the anticipation of inflation and in the ability to revise agreements.

Public sector wage increases were believed to play a part in the determination of price inflation, although the money supply was accorded the primary role. Indeed, the Government stated that:

> to bring down the rate of inflation...it is essential to contain and reduce progressively the growth of the money supply.12

It was held that following an increase in the money supply, perhaps due to the fiscal stance, the level and structure of interest rates, and the associated gilt-edged stock operations, the private sector would rearrange its portfolio of money and non-monetary (financial or real) assets, reducing its money holdings so as to increase the demand for money in line with the supply of money. These portfolio adjustments would be the transmission mechanisms from the money supply to prices. First, demand inflation would result from the higher demand for real assets. Where the goods and services were imported, the exchange rate would depreciate and import prices rise. Second, a greater demand for domestic non-monetary financial assets would raise their price and depress the interest rate. Consumption would rise as savings became less attractive. Investment would increase as financing costs fell relative to prospective returns. The higher value of asset holdings produced by the increase in price would encourage greater expenditure so as to reduce wealth holdings to the desired real level. Prices would consequently be bid up. Finally, the fall in the interest rate relative to rates abroad would bring about a lower exchange rate and higher import prices. A third adjustment, the purchase of foreign financial assets from overseas residents, would also reduce the exchange rate and raise import prices.

Public sector wage inflation could affect price inflation if it increased public spending such that the Public Sector Borrowing Requirement (PSBR) rose, and the money supply was increased. If the PSBR was high, it would be difficult to finance the deficit by non-inflationary means through the sale of gilt-edged securities to the non-bank private and overseas sectors. The Government in that case would have to borrow from the banks. That act of credit creation would add to the money supply. Further, the acquisition of securities by the banks would increase their ability to expand credit (and thus the money supply), given a desired ratio of quasi-liquid assets to advances. The precise relationship between the PSBR and the growth in the money supply would depend on the level and structure of interest rates, and on whether a higher PSBR would raise the real value of private sector financial wealth and induce the holding of more government securities and less bank borrowing.[13]

Costs per se were not a central part of the Conservative's model of the generation of inflation. At the same time, it was realized that, in the context of the UK, wage inflation did affect price inflation. Imperfect product markets were acknowledged to exist so that cost increases could be passed on, at least in part, without the degree of loss of output and employment that would occur in competitive markets.[14] The fact that costs could directly affect prices was explicitly recognised by the Government in a major Treasury economic policy statement:

> By reducing the rate of growth in earnings in the private sector, a tight monetary policy will act to limit cost increases and thus also put downward pressure on private sector prices.15

Thus, as Sir Geoffrey Howe noted, in the context of monetary control, trade union demands might make the reduction of price inflation more prolonged.[16]

But it was not just private sector pay that was seen to influence price inflation: the public sector also contributed. The nationalised industries' costs were often reflected in their prices due to the monopolistic nature of the sector. Not only was the price index directly affected, but also in many cases the costs of private industry were inflated. A National Economic Development Office (NEDO) report calculated that 11 per cent of all intermediate goods and services bought in by companies at all stages of production were supplied by the nationalised industries. Moreover, the lack of alternative supply and technical constraints meant that firms were very vulnerable to increases in the prices of energy and communications.[17] Meantime, public service wages had implications for the taxes and rates paid by industry, and, ultimately, the prices charged.[18] It was also thought that public sector wages influenced those in the private sector, and hence costs and prices.[19]

The link between public sector pay rises and the level of price inflation was of import because, under a restrictive monetary policy, there was little likelihood that public sector pay rises would be induced to fall by as much as the money supply growth. The Treasury's economic policy statement did mention that wage rises might fall with monetary targets (and therefore price expectations), and due to poorer employment prospects as the pressure of demand was reduced.[20] However, the same memorandum acknowledged that the manner of the formation of expectations would have a bearing on how quickly price increases came down.[21] Historical evidence showed that earnings frequently grew faster than the growth of the money supply.[22] This was unlikely to change. The threat of unemployment due to monetary policy was somewhat distant and unrecognised. Monetary policy would only directly affect the private sector's demand prospects.[23] Even where unemployment was evident, the Government felt that workers might not make a connection between pay and employment.[24]

In sum, although the Conservative Government came to power embracing the monetarist paradigm, it recognised that public sector wage inflation could impact on prices through the PSBR. The theory was also abridged in recognition of some degree of cost inflation. Therefore, if the Government's primary objective of the reduction of inflation was to be achieved, public sector pay also had to be controlled.

1.2 The control of public expenditure

Second only to the control of inflation, the Conservative Government attached great economic and political significance to the reduction of public expenditure growth. As the Chancellor said in the first Budget statement of the new Government:

> We are totally committed to improving standards in the public services. But that can be achieved only if the economy is strong in the first place. So that will be our first priority. Finance must determine expenditure, not expenditure finance. Substantial reductions in expenditure can, and will, be made...25

Aside from the implications of the growth of public spending for the PSBR, the money supply, and inflation, the health of the economy was also believed to be influenced by the effects of public expenditure growth and finance on the private sector.

First, public expenditure was held to be less productive than private sector spending. For instance, Mrs. Thatcher asserted that:

> More Government spending reduces the resources available to the private sector where they could be used very much better.26

More specifically, private enterprise was alleged to do more

> To increase resources and opportunities through individual pioneering, effort and skill.27

Second, incentives were said to be reduced by the financing of high levels of public sector expenditure. High taxes and rates were believed to damage industry and individual enterprise.[28] If a great deal of borrowing was required, then the magnitude of bond sales would boost interest rates, deterring investment and economic growth.

Ideological hostility was as much the reason for the salience of the objective of rolling back the public sector as economic logic, however. The political rationale was couched in terms of freedom. Thus one statement of Conservative aims stated:

> freedom is threatened, as even some Socialists have now admitted, by the increase in public spending as a proportion of the nation's resources.29

The historical rise in public expenditure was associated with a curtailment of liberties in both the economic and political spheres.[30] Wider State employment was said to reduce economic freedom, and the accompanying public production and provision reduced consumer choice in areas such as health and education.[31] In turn, the smaller degree of economic freedom was thought to infringe political freedom. The reduction of private property and its concentration in the hands of the State was believed to strengthen the position of individual bureaucrats vis-a-vis Parliament.[32] For the future, the worry was that the power of the State's organs and the seemingly easy availability of finance would lead to the continuation of State control in circumstances no longer warranting it, and the unnecessary restriction of freedom.[33]

That the pay of public employees needed to be controlled, given the attitudes of the Conservatives to the public sector, was unquestioned. Pay accounted for approximately 30 per cent of all public expenditure. The growth of public spending was correlated with public sector pay trends. Moreover, other elements were difficult to control because they were demand-determined - such as benefits paid in recession - so the pressure to control pay was strong.[34]

1.3 Conclusions

At the outset, similarities of priorities regarding wage inflation between the major parties were indicated. In fact, there were also some common threads in the rationales for controlling price inflation and public expenditure. For instance, ever since 1972 when flexible exchange rates were introduced, price competitiveness had been a major motive behind wage controls. Earlier in 1979, the Labour Chancellor of the Exchequer had argued the need to control pay in order to contain public expenditure and the PSBR. Some among Labour's ranks had also questioned the political wisdom of a large public sector: for instance, Roy Jenkins said:

> I do not think you can push public expenditure significantly above 60 per cent and maintain the values of a plural society with adequate freedom of choice.[35]

Nonetheless, the rationales of the Conservative Government for intervening in public sector pay determination from 1979 were distinctive. The thrust of their inflationary motive was monetarist rather than cost-oriented. Their opposition to public expenditure was also particularly fervent both in terms of efficiency and freedom.

2. The Conditions Generating Public Sector Wage Inflation in 1979

The rationales for controlling inflation assumed special importance on the accession of the Conservative Government in May 1979, for the conditions of public sector pay determination were unarguably ripe for a high rate of wage inflation. Although the reasons were never fully articulated by the new Government, they can be isolated within the theoretical structure proposed in the last chapter. Thus, the following three subsections expose the inflationary elements in the economic-political environment, the institutional context, and in bargaining strategies.

2.1 The economic-political environment

The ability of an authority to give pay increases, it will be recalled, is influenced by the economic and political market, which determines the financial and administrative constraints on the freedom to fix pay. Intrinsically important is market structure - the actors that influence finance and expenditure, and their formally-defined and informal interactions - because of its implications for the distribution of power between actors in the market. Given market structure, the attitudes and actions of the key participants are of special significance.

This section documents the constraints on the ability to pay in central government, local authorities, and public corporations in May 1979, and traces the causes back to the structure of economic and political markets, economic market trends and the attitudes of relatively influential groups. The financial and administrative constraints reflected the state of incomes policy, economic forces, and political controls on the growth and distribution of budgets.

2.1.1 Central government

(i) Financial constraints

The incoming Conservative Government inherited relatively relaxed constraints on the ability to pay increases pertaining to the 1978-79 pay round. After three years of strict pay controls, Phase 4 had been widely disregarded. The Labour Government had been obliged to revise its policy. The 5 per cent limit had been given a £3.50 per week underpinning, and public service groups had been permitted to have their cases reviewed by the Standing Commission on Pay Comparability (SCPC). Public expenditure allocations for the financial year (FY) 1979-80 embodied the adjusted formula, and were to be revised as each special case settlement occurred, subject to the general principle that a substantial proportion of any excess cost was to be absorbed within the existing figure.[36]

Other budgetary influences did not appear to limit funding for pay increases any further. On the one hand, real spending on current goods and services in central government was planned to grow by 3.25 per cent in 1979-80, so that, where permitted, the funds could be used for pay rises.[37] On the other hand, the allowance for price increases in the expenditure figures had not been revised from its original 8.5 per cent level, in spite of rising inflation; this meant that non-pay expenditure also competed strongly for growth funds.[38]

Overall, therefore, the financial constraints were flexible in that incomes policy had all but collapsed, and, although incomplete funding was available, it increased with the size of settlements. In these circumstances, the relatively high ratio of labour costs to total costs, which ordinarily constrained pay finance outside incomes policy, was immaterial. Pay increases of a large magnitude were possible.

(ii) The political market environment

The near-complete accommodation of pay policy and public expenditure to central government pay bargaining under Labour in 1979 can be attributed to the political market. The economic market was not directly relevant to central government. Although many authorities received revenue for services rendered to government departments and others in the economy, and some of the monies were officially deemed 'appropriations-in-aid' (of expenditure), authorities were not at liberty to increase their revenue and use it as they wished: above a stated level, appropriations had to be returned to the Treasury in the guise of Consolidated Fund Extra Receipts.

Political market structure

The structure of the political market was the product of the pay policy and public expenditure planning and control procedures, as operated by the Labour Government. Formally, they had the effect of making the Government the dominant actor in the market, but, in addition, in 1979 the trade unions played a significant informal role.

The planning of pay restraint policy and public expenditure

The Phase 4 pay restraint policy was initially framed by the Labour

Government because the TUC did not agree with the need to curb pay increases further. However, the eventual form was effectively determined in the political market involving both government and unions. Meetings were held with the Prime Minister in October and November 1978 concerning the lack of respect for Phase 4. No agreement on policy was forged because the Trades Union Congress (TUC) General Council rejected the joint statement that the participants had signed.[39] Notwithstanding this, the revised form of Phase 4 introduced by the Government in fact contained the thrust of the ill-fated joint statement.

In the planning of public expenditure, many parties were notionally involved: the Cabinet, Ministers, departments, and authorities.[40] On the basis of Treasury guidelines regarding the status of existing policies and the limits of permissible variations, departmental finance divisions negotiated with policy divisions to produce proposals for change, and the estimated cost of departmental activities at fixed, 'Survey', prices. Bilateral negotiations between Finance Divisions and the Treasury ensued, sometimes at Ministerial level, to agree new projections of spending plans, after discussing new programmes and the statistical and policy assumptions underlying the extension of existing policies. The Public Expenditure Survey Committee (PESC), comprising departmental principal finance officers and the Treasury, agreed the report to emerge from the negotiations. The report, highlighting projections, and suggesting changes to current policy, and open issues, was then considered in Cabinet, in conjunction with a Treasury assessment of the scope for increasing public expenditure.

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Collective decisions were made. Provision for inflation was included later, following Treasury advice.

While it would be foolish to totally discount the influence of individual ministers and Departmental officials, it was nevertheless the case that the Cabinet, particularly the Chancellor of the Exchequer and the Prime Minister, held a strong position in the planning process. Informed by the Treasury, the Cabinet was responsible for final decisions.

Outside groups were generally relatively powerless in the planning process in 1979. Formally, the system was closed to those outside the Cabinet and government departments. Informal representations were made, but they had little ostensible effect for the most part. The one exception was the TUC. In 1979, the Labour Government agreed with the TUC that there should be annual talks between the TUC Economic Committee and the Chief Secretary to the Treasury. In addition, consultations were arranged between the appropriate Ministers and the TUC's Social Insurance and Industrial Welfare, Education, Local Government, and Health Services Committees.[41] But, by its own admission, the TUC realised that the 1979 discussions occurred after the main expenditure decisions for the year immediately ahead had been taken, and the survey of the plans for the following year was already in progress.[42]

Although the expenditure plans for 1979-80 were presented as Supply Estimates to Parliament for scrutiny, there was effectively no planning role for Parliament whatsoever. The Treasury and Civil Service Committee were later to denounce the system as a farce in no uncertain terms.[43] On the 29 Supply Days set aside to debate the Estimates, it had become customary to debate matters of general interest.[44] When finance topics were covered, they generally concerned taxation.[45] Usually there were no divisions. Indeed, between 1966 and 1981 there were only seven occasions when Members of Parliament (MPs) gave notice of objections to a class of Estimates.[46] MPs were unlikely to challenge their party's plans when in government for fear of prejudicing their political careers; when in opposition the incentive to oppose the government's plans may not have been great because it was largely irrelevant to progression within the party.[47] In any case, scrutiny was far from straightforward. MPs did not have adequate information about the expenditures under scrutiny.[48] A Treasury and Civil Service Committee report later said:

> The use of specialist technical terminology, a complex lay out, and extensive cross-referencing, make the Estimates difficult to interpret. The sheer volume of figures is forbidding... A different set of conventions is used in central government from those in common usage in the private sector, the nationalised industries or local authorities.[49]

The Expenditure Committees, too, were unable to affect spending plans. significantly. There was only a relatively short period between the presentation of the Supply Resolutions and the passing of the Consolidated Fund Act authorising payments. By this time, projects were usually well-advanced, financed through votes on Account, preliminary to the Consolidated Fund Act. Furthermore, the Committees suffered from having only a small staff to work on the vast number of complex estimates.[50]

One Commons Committee summarised the power arrangements thus:

> There is almost no risk of any of the details of (the Government's) spending programme being subjected to close analysis and criticism on the floor of the House, or of any changes being made by means of amendments.[51]

Lord Hailsham's description of the UK system of government as an 'elective dictatorship' was very apt.[52]

The control of pay and expenditure

The Government's relatively dominant political market position was cemented by the control it exerted over central government pay and expenditure, once negotiated or planned. Fundamentally, the strength of the Government reflected its statutory powers vis-a-vis central government authorities. The Government was the ultimate source of all finance. Hence it could control expenditure. Technically, it was able to ensure that authorities spent no more than planned totals through the system of cash limits and the Treasury-operated Financial Information System. Parliament's control was again more apparent than real.

Cash limits imposed ceilings on the amount of cash that the Government proposed should be spent on certain categories of public expenditure during the financial year. Rules relating to the coverage, structure, and operation of cash limits provided the government with its control.[53]

All pay expenditure, apart from the fees of general practitioners in the NHS, was covered by cash limits. Pay expenditure could be contained unlike, for example, demand-determined social security benefits where the level of spending depended on the number of applicants meeting specified qualifying criteria.

The structure of the cash blocks also provided for relatively tight control over pay. Central government expenditure was broken down by department, and by programme within departments, to match the span of the control and administrative systems. In addition, within the civil service, there was generally a separation of expenditure on pay and administrative items, (which were the responsibility of the Civil Service Department (CSD)), from other expenditure, (which was under the control of the Treasury). While the blocks permitted a degree of flexibility in the management of expenditure, pay expenditure could not easily be substituted for non-pay spending because the proportion of pay was so large: as much as 85 per cent in the civil service blocks, and 70 per cent in the NHS.

The operating rules made it difficult for spending authorities to augment their budgets. First, upward revisions of cash limits were only possible where policy decisions were taken by the Government to increase the provision of a particular service; where, in the eyes of the Government, pay and price increases turned out to be significantly greater than assumed, and where factors beyond the control of the spending authority caused the cash limits to be grossly unrealistic. Second, underspending on pay in one year could not be carried forward to the next. Third, offsetting over-expenditure on pay in one block of services by savings on another was not a facility open to budget holders. In the words of a Treasury civil servant:

> Within the cash block system, we certainly do not contemplate being able to spend more in one cash block because you are spending less in another cash block. That is certainly not a feature of the cash limits system.54

Finally, it should be noted, however, that the cash limits system only limited the provision for pay and price increases for one year. In the following year's cash limits, the full value of the pay settlement was included because the volume plans were priced at actual prices, (not the former inflation factor levels), plus the new factor.[55]

The control powers of the Government in the cash limit system were reinforced by the Treasury Financial Information System (FIS),[56] and an analogous, though less detailed, system operated within the NHS.[57] First, under FIS, expenditure was monitored by comparing the levels of actual spending with profiles of expected expenditure. Speedy and accurate information was available. Expenditure details from the Paymaster General's Office (which was responsible for transactions) were up-to-date as of two days previously. Second, on the basis of contrasts between the expected profile and actual spending, projections were made for the year, so that blocks with potential overspending could be more carefully assessed. Third, the technical exercise was supplemented with dialogue between the CSD or Treasury, and the department, in cases of significant overspending, in order to ascertain the causes and to ensure that remedial action was taken.

The Comptroller and Auditor-General also carried out checks on spending at the end of the financial year. The Public Accounts Committee (PAC) examined reports on cases where overspending had occurred.[58] The threat of investigation acted as a deterrent to spending more than allocations. However, the procedure was necessarily post-hoc; there was no prevention procedure as such.[59]

Parliament, apart from the PAC, formally possessed some control over expenditure outturns, but its power was very much secondary to that of the Government. If authorities required additional finance above the cash-limited Supply Estimates, and it was sanctioned by the Government, Supplementary Estimates had to be presented to Parliament, which could assess the merits of the case . However, for the reasons referred to earlier concerning expenditure planning, Parliament was relatively ineffective. Yet it should be said that the scope for control was potentially greater in 1979 than in the preceding years, for the Supply Estimates and cash limits had just been assimilated to the same price basis. Previously, the basing of Estimates on the prices of the autumn of the previous financial year had meant that Supplementaries were not only required for expenditure over the cash limits, but also for expenditure above Estimates but below cash limits. The mass of Supplementaries had made Parliamentary control very difficult, if not impossible. In particular, in the context of pay, it had been hard to distinguish routine claims to cover general rises in pay from those which were out of the ordinary, and which should have been investigated.[60] Also, the differences in the structure of the Estimates and the cash limits had made 'cross-walking' difficult.[61]

Political market attitudes

The structure of the political market determined that the key actors affecting the availability of finance for central government pay were the Cabinet and the unions. The flexibility of the ability to pay reflected their attitudes.

At heart, the Labour Government was opposed to generous provisions for pay and expenditure. Even when the incomes policy appeared to be in early trouble, the Prime Minister invited the TUC to talks to reach a more mutually acceptable policy that would have kept inflation in single digits. Although public expenditure was planned to grow in volume terms, the initial plans for 1979-80 were based on low pay and price inflation factors and a negative relative price effect (implying a slow growth of public sector costs relative to the private sector.)[62]

Furthermore, in the Phase 4 White Paper, the Government had announced that cash limits were to be adhered to, in support of the pay policy.[63] At least on the basis of the experience of the previous few years, this was a credible stance. No revisions to accomodate pay bill increases in excess of the assumed rise had been made in Financial Year (FY) 1976-77 and FY 1977-78. In FY 1978-79 cash limits had been raised only in special cases. Extra provision had been made in February 1979 for payments to the police in Northern Ireland, and for retrospective payments to prison officers in England and Northern Ireland, but offsetting reductions were achieved in the Home Office case.[64]

Meantime, union attitudes were strongly against pay restraint. At the 1978 TUC Conference, a resolution in favour of free collective bargaining was passed:

> Congress... considers that after three years of restraint trade unions must now negotiate freely in their members' interest. Congress declares its opposition to Government policies of intervention and restraint in wage bargaining, including Government sanctions, and to any form of restrictive Government incomes policy.65

The unions' resolve was evident in the November 1978 General Council rejection of the Government-TUC statement, and the industrial unrest that characterised the so-called Winter of Discontent. Nevertheless, the autumn talks revealed a measure of support for a more relaxed policy incorporating a role for comparability.[66] The distribution of power in the political market in 1979 allowed the attitudes of the unions to compromise government pay and spending policies.

(iii) Summary

The relatively unchecked ability-to-pay of central government in 1979 can therefore be attributed to the structure of the political market and the attitudes of the Government and unions. While the Government had considerable power over the planning and control of pay and expenditure, the TUC was allowed an informal role. The same market structure had facilitated pay control for the previous three years of incomes policy, but the vehemence of the negative attitudes on the part of the unions towards the fourth year of policy obliged the relaxation of the constraints on pay and expenditure.

2.1.2 Local authorities

(i) Financial constraints

If the ability-to-pay constraints on central government pay were weak in May 1979, those on local authorities were weaker. As in central government, the negotiations in the 1978-79 bargaining round were subject to the relaxed version of Phase 4. Further, the levels of grant to local government for FY 1979-80 included the low-pay underpinning and were to be increased, subject to offsets, upon the publication and agreement of the results of comparability studies. Since the January 1979 public expenditure plans had allowed for a growth of local authority services of 1.6 per cent in FY 1979-80 over the estimated expenditure for FY 1978-79, technically there was freedom to finance even higher increases, if desired, assuming the underprovision for price inflation in the public services, (which had been maintained at 8-1/2 per cent by Labour), did not usurp it.[67]

In addition, in contrast to central government, local authorities had supplementary sources of finance which were being intensively exploited. Significantly, while the Labour Secretary of State for the Environment had made the initial rate support grant settlement consistent with single-figure increases in rates, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimates, based on returns from 330 of 402 rating authorities in England and Wales, put the average domestic rate increase for 1979-80 at 18 per cent and 14 per cent for non-domestic rate payers.[68] The implication was that the awards of the Standing Commission on Pay Comparability (SCPC) could be fully financed. The high ratio of labour to total costs was not a relevant constraint at that time.

In other words, the situation was potentially very inflationary in local government in mid-1979 because of the effective abandonment of strict incomes policy and the accommodating role being played by public expenditure. It was more inflationary than in central government because the access to non-governmental finance reduced the need to raise productivity or reduce services to pay for the increases.

(ii) The political market environment

The lax constraints on pay and expenditure reflected the political market context: the centre-periphery submarket and the local submarket. The central-local political submarket involved local authorities; their associations (the Association of County Councils (ACC), the Association of District Councils (ADC), and the Association of Metropolitan Authorities (AMA)); the Government, its departments, and Parliament; and pressure groups, including unions. The submarket determined the policies concerning pay restraint and public expenditure (volume growth and government grant), and thus certain constraints on the ability to pay. This segment of the political environment was important in view of the significance of pay policy for negotiations and because grants, at that time, accounted for nearly half of the finance for gross expenditure.[69] First, the Rate Support Grant (RSG) was paid in respect of relevant expenditure, that is, broadly, current expenditure not financed by receipts. Second, specific grants were paid for particular services, usually as a percentage of expenditure, such as the 80 per cent grant towards the police service. Third, supplementary grants were paid for transport services and national parks according to the Environment Secretary's assessment of the formulation and implementation of policies by local authorities.

The local political submarket primarily involved local authorities and their electorates, who had an interest in influencing expenditure and rate decisions. The importance of the submarket lay in the fact that rates accounted for a quarter of revenue for gross expenditure, and could be increased under the General Rate Act of 1967 to cover any revenue expenditure not recovered from elsewhere.

To be sure, there existed an economic market in which local authorities provided services in return for fees and charges, and rents. However, it can be safely ignored. In the first place, it provided only approximately one-sixth of revenue for the purposes of gross expenditure.[70] Furthermore, in 1979, the finance was generally subject to a degree of legislative regulation. Under the 1974 Local Government Act, general guidelines usually applied to fees and charges. Fixed or maximum charges for services sometimes applied, as was also the case with most licences, such as for dogs, cinemas and theatres. Rents had to be fixed so that they were not in excess of the level needed to balance the Housing Revenue Account after subsidies, according to the Housing Rents and Subsidies Act 1975. User charges levied in trading activities were not limited, however.[71]

Essentially, the relatively loose financial constraints in local government in 1979 can be attributed to the Labour Government's power over grants and volume spending plans being compromised by the unions; to its lack of control over nominal spending in the centre-periphery submarket; and to the monopolistic position of the local authorities in the local submarket. Each political arena is discussed in turn.

The centre-periphery submarket

Political market structure

The structure of the submarket, which shaped the power structure, was determined by the procedures for planning and controlling pay and expenditure. The Government's power was more questionable than in central government.

The planning of pay and expenditure

There were two chief sources of weakness in the Government's position in the political market structure. First, as in central government, informal procedures gave the unions a significant voice in the political market in 1979, although Government retained the final say. Local authority unions were involved in informal discussions concerning Phase 4 and had a significant impact on its revised form. Consequences duly followed for grants and nominal public spending. The second weakness was the absence of any procedure to allow the Government to influence cash spending plans other than through the amount of grant: expenditure guidance was only in volume terms.

Even so, the Government's position was secure in other respects. In the sphere of volume expenditure planning the discussions with local authorities took place under the aegis of the Consultative Council for Local Government Finance (CCLGF), on which sat the local authority assocations, the Greater London Council (GLC), and Ministers and officials of relevant departments. The starting point was the forecasting of expenditure by service and the extraction of implications for policy in Expenditure Steering Groups, composed of senior finance officers and service advisers from local government and civil servants. The Official Steering Group then held negotiations between government officials and local government officers on the forecasts of relevant expenditure and the level and distribution of grant. In addition, the Department of Environment (DoE) consulted the TUC Local Government Committee to discuss the prospects for the ensuing year and trade union priorities.

Parallelling the bilateral negotiations over central government spending, the DoE and the Treasury consulted on the basis of the Expenditure Steering Groups' figures to determine the total of local authority spending to be suggested to the Cabinet. Final decisions on expenditure, grant, and cash limits, were the prerogative of the Cabinet, taking into account the CCLGF discussions and the views of unions and others.[72]

The balance of power in this process in 1978-79 lay with the government. This should not be exaggerated, but in contrast to before the mid-1970s, the amount of relevant expenditure was not assessed simply as a joint forecasting exercise which may or may not have agreed with the previous Public Expenditure White Paper: instead, the government was more concerned to influence the planned total.[73] This was not surprising given the greater perceived importance of the PSBR; the slower growth rate; and larger grant share.[74] For example, in the negotiations for FY 1975-76 options for relevant expenditure had been specified, and the following year relevant expenditure had been ordered to be kept within the level forecast for 1975-76.[75] Indeed, the local government side of the CCLGF felt that while dealings with the Labour Government were reasonably effective, there was often a lack of true consultation; rather, the forum was used to inform and explain centrally-taken decisions.[76]

The relative strength of the centre over the periphery in volume planning also emanated from the failure of the local authority associations to counter with alternative strategies in the planning process. The problem was organisational. Advisers and elected officials had little time to develop policy initiatives due to local commitments. The permanent secretariats were small relative to the broad range of functions of associations; they were not larger due to the cost and their lack of links with local authorities.[77]

The formal role of the unions was not significant. The TUC Local Government Committee (LGC) typically made its views known about the level of grant contribution, the inflation factor and, in particular, about the level of provision of individual services, while government departments stated their position, but there was no negotiation as such. To illustrate, in the introduction to a meeting in October 1978, the Parliamentary Under Secretary pointedly said that:

> The object of the exercise was to enable Ministers to <u>hear</u> the views of the TUC Local Government Committee before they reached

decisions on their proposals for the RSG settlement for 1979-80.78 (Emphasis added).

Finally, Parliament was weak. In addition to the problems of analysing voted expenditure identified in central government, Parliament, while being able to debate RSG Reports, could not amend the figures.[79]

The control of pay and expenditure

Nor did the Government enjoy a powerful position in the political market concerned with the control of pay and expenditure. Although there were mechanisms to induce respect for volume plans, cash spending on pay and in total was not controlled. The Government's power was limited to the control of its own financial contribution through grant.

In more detail, grants to local government were tightly controlled in line with plans through the Government's administrative control system. Cash limits encompassed all grants so that there were firm limits to the level of support. Control was facilitated by the cash block structure which assigned blocks to the relevant sponsoring departments. The operation of the rules on relaxing the limits gave the Government as much power over local government grants as over central government finance. Although, as before, Parliament was relatively powerless, the Treasury's FIS monitored and controlled local government withdrawals of grant.

At root, governmental control of spending levels was restricted by the structure of the political market; procedural rules and convention led to the diffusion of power, with the result that the effectiveness of the guidelines depended largely on the attitudes of the local authorities. The Government had no statutory responsibility for local authority expenditure, and hence was confined to monitoring and exhortation. As part of this, local authorities filled out annual CIPFA/DoE returns showing their expenditure budgets in real terms (and rate increases) to give the DoE an early indication of whether the planned real spending levels would materialise. In the event of a deviation, the government cajoled the Associations through the CCLGF into advising their members to rebudget more in accordance with government wishes. The DoE also issued circulars advising on expenditure levels. However, the success of these steps hinged on the views of the Associations - particularly the political views of the dominant party - and on the loyalty of individual authorities to the outcome of consultations.[80] The Associations were not in a position to enforce any agreement, however, because they were not constitutionally able to bind members; in any case, there was little reporting back.[81]

Government control was further weakened by the grant distribution arrangements which gave authorities an incentive to increase their spending. In 1979 there were three elements in the RSG. First, the needs element compensated for differences in spending needs due to differing service demands or costs. Second, the resources element accounted for variations in the rateable resources of authorities. Third, the domestic element related to the rate relief determined by central government. Although the RSG was cash-limited, the needs and resources elements guaranteed an increased share of grant upon an increase in spending. The needs assessment, based on stepwise multiple regression analysis, credited groups of similar, high-spending, authorities with high spending needs and hence more grant.[82] The resources element was calculated such that the same marginal rate of support was granted, whatever the expenditure level; there was no penalty to raising expenditure.[83]

Since there was no mechanism to control local authority cash spending, there was only the disincentive of the gearing effect: where the percentage of expenditure provided by rates was small, the raising of finance above the levels implicit in the grant settlement required large percentage increases in rates. The DoE thought this a deterrent, although only an imprecise one.[84]

In short, the Government in 1979 enjoyed only partial control in the planning and control of pay and expenditure. As was admitted in The Right Approach by the Conservative Party:

> it is becoming clearer than ever that the present system of relations between control and local government does not provide a sure way of regulating either the level or the character of local spending.85

Political market attitudes

The financial constraints on authorities reflected the attitudes of the dominant parties: the Government, the unions, and the local authorities. The flexibility of the constraints on pay and grant was the product of the attitudes of the Government and unions towards appropriate wage increases in the 1978-79 pay round. As explained in relation to central government, the Labour Government desired to keep the pay provision small, but was forced to relax it in the face of union disagreement.

The freedom afforded by the real growth plans was the result of the Government's views on the health of the economy. It was believed that services could be permitted to grow slowly in view of faster economic growth, single-figure inflation, and a satisfactory PSBR.[86] Local authorities were apparently prepared to budget in line with these plans. The Local Government Minister did not believe that the spending returns indicated a volume upsurge.[87] This was plausible because the deviation between guidelines and actual current expenditure growth in real terms in the four years from FY 1975-76 to FY 1978-79 had been small: 0.3, -0.4, -0.7, and 1.8 percentage points respectively.[88]

The local authorities, largely unconstrained in the central-local political market, were meantime preparing to increase nominal spending at a fast rate, as the CIPFA/DoE rate returns hinted. The Minister interpreted the action as indicating that treasurers were being cautious about the prospective trend in inflation.[89] The potency of the view of local authorities regarding cash spending was also due to the power of authorities in the local political submarket, however. It is to this that attention is now drawn.

The local political submarket

Theoretically, the relationship between the local authority and the electorate bears on the ability to raise rate finance and increase spending, while the reports of local auditors can affect local authority expenditure in real or money terms. In practice, the structure of the local political market in 1979 was not conducive to checks to local authority autonomy.

The electorate's formal power lay in the ballot box and the threat of voting a council out of office. This did not amount to significant influence, however. Unlike consumers in private industry, surveys showed that voters in local authorities did not see themselves as powerful.[90] Elections were infrequent or staggered so that electoral pressure was felt only over the longer-term. When they occurred, participation was typically low.[91] Also, businesses - which paid a substantial proportion of the rate bill - were not franchised. Even prior to 1969 when there was a business vote, only a fraction of businessmen could vote.[92]

Voters may have been influenced by the size of their rate bills, particularly as they were highly visible lump-sum demands, but they were ill-equipped to respond to particular spending levels.[93] Rate increases were not reliable indicators because the Government contribution was apt to vary with the overall percentage contribution and the distribution formula.[94] The electorate did not notice business rates because they were just one increased cost of many in price rises.[95] Moreover, they were badly informed about the level and even the type of service provision in the authority.[96] Information was either lacking because of published indicators being scarce, or it was difficult to assess due to complex presentations, such as in local authority accounts.[97] Also, national issues tended to dominate local factors in local authority elections.[98]

Auditors, who were either district auditors appointed by the Environment Secretary, or were appointed by local authorities from professional practice, subject to approval by the Secretary of State, were free to comment on financial efficiency, including pay expenditure.[99] However, this was not a threat to the budgetary authority of local government. First, audits were primarily concerned with ensuring that public money was fully accounted for, and expenditure was legally authorised. There were insufficient auditors to investigate value-for-money regularly.[100] Second, comparative studies would have been more telling, but the central directorate of the audit service rarely carried them out.[101] Third, the auditor's report was only reported to the local authority (except where the law had been infringed): unless there was a public outcry, the authority was not obliged to react.[102]

Similarly, internally, local authorities were not under great pressure to ensure costs were minimised. Value for money was not emphasised. The Bains Committee, which had considered management structures, had found that there was little machinery to achieve value for money. Financial and other indicators were rarely used in budgeting, according to a report by Coopers and Lybrand. The reason appeared to be, in part, that they were not appropriate in the context of public services: high expenditure was regarded as indicating a good service as opposed to inflated costs.[103]

The attitude of the local authorities, the dominant force in the local political submarket, was that they were generally prepared to increase the unconstrained financial magnitudes of rates and nominal expenditure in response to inflation. A study of 20 local authorities in the late 1970s found that authorities preferred to raise taxes to compensate for inflation, rather than cut the volume of spending. Also, in the same investigation, budgetary practice was found to be to update volume plans for inflation before applying government guidelines on real spending.[104] Hence the rate and cash-spending prospects of mid-1979.

(iii) Summary

In summary, local authorities were subject to constraints determined in two political submarkets, yet in 1979 the financial context was relatively abundant. The reason was in part that the constraints on the amount of finance at the disposal of authorities in 1979 were not tight. Although the Labour Government was able to control grant once planned, the planning total was variable (upwards) according to the comparability settlements in the pipeline, owing to the influence the trade unions were able to exert in the central-local political sub-market. Nor did rate finance appear to be limiting local government cash budgets. Electoral pressures were weak and the gearing effect was far from an absolute constraint. Local authorities could, and, in 1979, did, raise rates significantly.

Also, with regard to expenditure, the Government planned for a degree of real growth given the state of the economy. In 1979, as in previous years, local authorities seemed poised to abide reasonably closely by the guidelines. However, given the lack of firm control over local authority budget details, the associated funds could have been put towards pay budgets. Additionally, the ability-to-pay was relatively unconstrained because cash expenditure was not subject to significant downward, central or electoral, pressure for institutional reasons. This overrode the restrictions imposed by the high ratio of labour to total costs.

In comparison to central government, therefore, the financial atmosphere in 1979 was relatively more liberal. This difference reflected the access of local authorities to, and power within, the local political submarket where the Government had no jurisdiction.

2.1.3 Public corporations

(i) Financial constraints

Upon gaining power in 1979, the Conservative Party inherited a public corporations sector whose finance was only loosely constrained on the average. While this belied a range of inter-authority differences, the aggregate effect was to threaten single-digit inflation.

The external finance of nationalised industries was limited by External Financing Limits (EFLs), set by the previous Labour Government. In the financial years (FYs) 1976-77 to 1978-79, the EFLs had in general been easy to meet. Outturns had been 32 per cent below the EFL in the first year, and 38 and 26 per cent below in the following two years.

Across corporations, in FY 1978-79, four corporations had had negative outturns and paid back to the Treasury more than they had been required to; two more ended with negative outturns although they had been given permission to borrow; one had used only 58 per cent of its EFL. The remainder were at or within 15 per cent of their respective limits.[105]

The EFLs for FY 1979-80, which were of importance to the rest of the 1978-79 pay round, were potentially harder to meet. The limits had been calculated on the assumption that the original Phase 4 policy would hold. There had been no revision when the low pay provision had been inserted, and, significantly, there had been no undertakings to facilitate the financing of any catch-up increases, unlike in the public services.[106] It therefore appeared likely that the external finance ceilings would bite more than usual, other things being equal.

But other things were not equal. Internal finance could be increased above assumed levels in many cases. Price restraint had ended and authorities were expected to move towards economic pricing, the precise extent in practice depending on the state of competition in the market.[107] In addition, some corporations faced rising demand trends so that there was more scope for raising prices and utilising labour more intensively, thereby increasing the amount of revenue per employee available for pay increases. For example, the Labour Government's Public Expenditure White Paper had forecast steady upward growth for the electricity supply industry (ESI), the British Gas Corporation (BGC), the Post Office (PO), the British Airports Authority (BAA), and the British Railways Board (BRB). It is true, however, that elsewhere the prognosis for demand, and thus revenue and pay, was bleak. Markets were turning down for British Shipbuilders (BS), the British Steel Corporation (BSC), British Airways (BA), the National Freight

Corporation (NFC), and the National Bus Corporation (NBC), causing the EFLs to have an impact.[108]

Furthermore, in contrast to the public services, nationalised industries were typically capital-intensive, with greater opportunity for increasing pay budgets by a given percentage through non-pay economies, such as through cutting back on investment plans. This applied particularly to the energy industries and the telecommunications part of the PO.

There are, of course, public corporations other than nationalised industries. In 1979, some, such as HMSO, the Royal Mint and the Royal Ordnance Factories, were heavily dependent on central government funds and therefore saw similar financial constraints as regular central government bodies. Some others, such as the BBC, received grants, but had revenue-raising powers, often to levy fees. Thus the constraints were more akin to those in local authorities, although it is fair to say that fees were more regulated by the Government than were rates. Finally, the Regional Water Authorities were treated like nationalised industries.

In sum, the public corporations sector was characterised by a diversity of financial arrangements and circumstances in 1979. Importantly, under the dominant financial regime of EFLs, corporations experienced tighter restrictions on external finance than in previous years, but internal finance from product and service sales was often flexible, especially in authorities in monopolistic industries and growing markets.

(ii) The economic-political environment

The ability-to-pay of public corporations in 1979 was derived from both the economic and the political environments. Economic factors impinged on internal resources. The structure of product markets affected the revenue of authorities through the elasticity of demand. Meantime, market demand trends affected output volume and revenues. Political influences operated in two political submarkets which comprised the overall political market environment of public corporations. The more important one, the government-industry submarket, affected external resources through the determination of the EFL, and internal finance and expenditure through a patchwork of financial and non-financial controls and laws regulating the structure of the economic market. The second was the industry submarket, involving the authority and satellite bodies, such as consumer councils. Here constraints were generated on internal finance, especially prices.

This section considers the elements of the economic and political markets and shows how they contributed to the degree of constraint seen in 1979. Attention is primarily directed at the nationalised industries owing to their predominant share of total public corporation employment.

The economic market environment

Economic market structure

Of key importance to the generation of internal finance was the revenue from sales of goods and services. One means of raising additional finance was to increase prices. The extent to which this was economically feasible in 1979 was influenced by the market structures of the industries in which authorities operated: whether the industry was competitive or monopolistic affected the price elasticity of product demand, that is, the ability to increase price without reducing demand. Thus, price was constrained to a greater degree by the product market when the price elasticity of demand was small, that is, when a price increase would have caused a large fall in demand, perhaps leading in more extreme cases to reductions in total revenue.

The energy and communications sectors were largely monopolistic in 1979. The electricity supply corporations and British Gas were sole distributors of their products, while the National Coal Board (NCB) had only marginal competition from coal imports. Although the sources of energy competed for custom, all having reasonably large shares of the energy market as a whole, price competition was probably not as intense as it could have been because of rigidities on the consumption side. Two-thirds of the output of electricity was used for purposes such as lighting, refrigerators, and electric motors, where alternative power sources could not be employed. Meanwhile, the NCB sold much of its coal to the electricity generating plants which were geared to that type of fuel. In the communications field, the Post Office held a monopoly in the areas of the letter postal service and telecommunications, although the two could compete with each other.

In comparison, the transport and manufacturing corporations faced more elastic demand due to the more competitive nature of their industries. In the transport sectors some corporations held monopoly positions within narrowly-defined industries, such as BR in the railway industry and the NBC in local bus markets. However, captive markets due to consumer rigidity did not exist because alternative means of transport were usually substitutable in a way not possible with energy sources. Thus the NBC and BR both competed with other types of public and private passenger transport, and BR also competed in its parcels operations with private sector carriers. Hence these corporations were in fact more like the NFC and BA than might be supposed. Nevertheless, the latter authorities faced peculiarly competitive conditions. The NFC possessed less than 10 per cent of the road freight market, competing with, among others, BR, the PO, and private hauliers. BA accounted for only a very small fraction of the international air travel market. The manufacturing industries, BSC and BS, were comparable in market structure to BA in that they supplied a very competitive international market.[109]

It followed that market structure made the financial background to pay negotiations more lucrative for groups in the energy and communications industries than in transport and manufacturing, other things equal. While other factors were germane to the overall financial position, market structure bore heavily on the degree of laxity of the constraints.

Economic market trends

As it transpired, the propellents of market trends tended to reinforce the financial consequences of market structure. In the energy sector, rising personal disposable income and increasing manufacturing output was boosting demand in mid-1979.[110] This was augmented by changes in relative fuel prices: the increased price of oil, occasioned by the second oil price crisis which was rooted in the Iran-Iraq war, induced greater coal-burn by the Central Electricity Generating Board (CEGB)[111] and vastly increased the demand by consumers for gas.[112] Also relevant in fuel-substitution decisions was a Government policy of October 1978 to burn more coal at power stations,[113] and consumer fears of supply restrictions in the oil market.[114] It should be noted, however, that market trends were not as expansionary as they might have been. The growing strength of the pound was making coal imports more inviting,[115] and BGC was having to limit new customers so that winter peak demand could be kept within the capacity to supply.[116]

In communications, the PO's telephone business was prospering as a result of economic growth and associated personal income levels and business activity. In addition, throughout the late 1970s there was a switch from letter mail to telephone communication, reflecting changing tastes. As with gas, supply constraints were restricting the expansion of telephone operations somewhat.[117]

The transport corporations, meanwhile, did not see parallel market developments in 1979. To be sure, economic activity and changes in tastes were increasing the demand for air travel,[118] the use of British Waterways Board (BWB) warehouses and terminals, and BWB hire boat licenses.[119] Supply-side factors in BR, such as more high-speed trains, and marketing devices, were also increasing demand.[120] However, the demand for transport had fallen earlier in 1979 due to the effects of the winter's strikes, while supply had been hit by breakdowns caused by bad weather.[121] Also, there were deleterious price effects in most industries caused by higher oil prices.[122] BA was suffering from the strength of the pound because over half its revenue was earned in foreign currencies.[123]

Manufacturing industries in the public sector were in the worst position because of continuing world-wide recession and overcapacity in steel and shipbuilding. Steel had been in a slump since the 1973-74 oil crisis, although 1979 was seeing some growth in the world market.[124] Shipbuilding had been hit by the oil price increases which reduced the demand for tankers and caused a trade slump.[125] General world factors were being compounded by UK-specific factors. The rising value of sterling and increasing cost inflation relative to overseas were making BSC and BS less price-competitive.[126] UK producers to some extent were turning to imported sources of steel.

The political market environment

Interacting with the economic market context of bargaining in the nationalised industries was the political market context. While the economic market affected internal resources through market structure and trends, the political market influenced that structure through government legislation, and placed administrative constraints on the ability of corporations to use their economic market position to increase internal finance and distribute it to pay budgets. The political market also put limits on external finance.

The government-industry political submarket

The government-industry submarket is defined broadly to include the Cabinet, Parliament, government departments, and public corporations. It also encompasses any body or pressure group that seeks to influence the government's policy towards nationalised industries, but it does not include those bodies such as consumer councils that relate primarily to the corporations themselves.

In the government-industry political submarket nationalised industries enjoyed a relatively autonomous position. In this, they had more power vis-a-vis the government than did central government bodies and local authorities. Essentially, the government had an 'arm's length' relationship with the nationalised industries. This was rooted historically in the Morrisonian conception of public corporations and in the legislation which established the corporations. It was intended that there would be a partnership between government and corporations whereby board members would acknowledge the public interest as well as commercial criteria.[127]

This ethos had two central practical implications for relationships in the government-industry political submarket. First, power was shared: the attitudes of both government and corporations were relevant to the determination of safeguards on industry behaviour. Second, detailed control over authorities was not possible: Ministers had no formal power to influence day-to-day management. Instead, statutes and White Papers established a multiplicity of general controls, which allowed room for manoeuvre. Thus, again the views of both government and industry were relevant to corporation decisions.

The specific nature of these two structural features in the context of corporation finances - the relative power over the determination of constraints and the technical control they afforded - together with the attitudes of the salient actors towards the terms of the constraints, determined the relative freedom of corporations.

External finance

External finance was subject to the public corporation form of cash limits, external financing limits, but the government had less control than in the public services, due to the structure of the political market. First of all, EFLs were fixed by the Government, but in conjunction with the corporations. The political market power of the corporations consisted of consultations with sponsoring departments and the Treasury over estimates of external financing requirements before referral to Cabinet.[128] Typically, the Treasury wanted low EFLs in order to curb public spending (since nationalised industry borrowing was included in the official definition of public expenditure), while the industries wanted high EFLs to facilitate investment and ease the process of managing in an uncertain environment. Departments tended to lie between.[129] While it is difficult to discern the relative influence of the parties at departmental and Cabinet levels in 1979, there is reason to believe that the corporations were far from dominated by the Treasury. Although deductions from managers' external financing requirements were routinely made, the history of inter-departmental relationships indicates that the sponsoring department would have lent its weight to the industry rather than the Treasury. There was an element of deference by the civil service towards professional industrial managers who possessed specialised knowledge.[130] This was particularly important in the public corporations sector because so many factors in the setting of EFLs were variable and hard to predict, especially those relating to revenue.[131]

Once set, the prospects for government control were technically good since the EFL system was capable of restricting the external finance of authorities to within the specified limits. Although not all external funding was drawn from public sources as such, it was all provided through the government. First, loans, which formed the major category of external finance for most nationalised industries, were controlled differently according to their source. Medium- and long-term loans obtained from the National Loans Fund (NLF) - a Treasury account with the Bank of England - were subject to statutory limits above which fresh authority was required.[132] Foreign borrowing over the same time horizon, from the European Investment Bank, the European Coal and Steel Community (in the cases of BSC and the NCB), or on the international capital market, was normally only undertaken with a Treasury guarantee which allowed control over the amount and timing.[133] The remaining type of loan, short-term loans from banks and other financial institutions, had also to be underwritten by the government.[134]

A second kind of finance was public dividend capital (PDC) - a form of share capital in which the government had a 100 per cent stake. PDC was available to industries which were expected to be fully viable, but which were especially subject to cyclical fluctuations in returns owing to trading conditions and the nature of their assets. The intention was to prevent large interest payments causing poor results in the downturn with deleterious consequences for the ability of corporations to win contracts.[135] In mid-1979 PDC was being given to BSC, BAe, BA, and the Giro part of the PO. By definition, it came from public funds and could thus be controlled.

The third component of external finance was grants which were not available to the private sector on the same basis. Since these were allocated by government, they could be restricted as desired. The grants included, first, assistance to authorities in order to stimulate output, the level of service, or the amount of investment. For example, the NCB was in receipt of assistance which contributed towards the cost of coke production and covered the cost of stocking coal and coke. The CEGB meanwhile was aided with the object of accelerating investment. A second type of grant was compensation, adding to finance where government policy caused financial performance to suffer through requirements that costs, prices, output or service be held at uncommercial levels. Notably, the grant to BR compensated for the cost of fulfilling obligations imposed by the government to provide passenger services and to maintain and operate certain level crossings. The third type of grant was a subsidy, paid to make up losses or deficiencies whicn were not the result of government policy regarding costs, prices or output. The NCB was receiving subsidies towards the social costs of pit closures, premature retirement benefits resulting from the closures, and assistance in meeting the deficiency in the mineworkers' pension scheme.[136]

Not only was the coverage of the EFLs complete across all public corporations (except the British National Oil Corporation), control was also facilitated by the EFL block structure: each corporation had its own EFL. Also the operational rules controlled the Exchequer-sanctioned finance in a way comparable to the public services. Limits were to be respected and there was no guarantee that a financing deficit would be met by an additional injection of external finance. Authorities were expected to provide for pay and price increases within the limits. On occasions, however, it was realised that exceptions to the EFLs would be necessary, perhaps when unforeseen difficulties arose which were beyond the control of the industry. For example, revenue shortfalls could occur due to market demand shifts unrelated to the efficiency of the nationalised industry, necessitating extra external finance if investment plans were to be fulfilled.[137] Finally, government control was enforced through a monitoring system comparable to that in the public services. Monthly or quarterly financial returns were sent to the sponsoring department and the Treasury covering investment expenditure, up-to-date estimates of financing requirements for the year, and proposals for meeting them. Comparisons of past and future spending were made with approved investment plans. Discussions ensued in which corporations were required to explain significant departures from the control figures and in some cases were asked to take compensatory action.[138]

Formally, Parliament had a role in the political market, but its power was in practice limited: EFLs were voted by Parliament. Whenever the cash limits of nationalised industries were raised, they had to be announced in Parliament. Hence, notionally, control operated through voting and the envisaged reflection cast on public corporations by Parliamentary questions or references in debates or Commons committee investigations. However, EFLs were generally approved by Parliament without change, due to the cursory attention given the Public Expenditure White Paper and party-line voting.[139] Parliamentary questions could be sidestepped and excuses given for the breaking of EFLs.[140] Debates were typically wide-ranging and hence did not maintain a focus on EFL abidance.[141] The Select Committee structure allowed the most penetrating questions to be posed, but even then the investigations were after the fact. Furthermore, the Public Accounts Committee did not have jurisdiction over public corporations to audit the disbursement and efficiency of public expenditure because this would have infringed the arm's length principle. However, it did examine individual votes involving grants and subsidies to nationalised industries.[142] Nevertheless, in sum, Parliamentary control was diffuse on the whole; industries probably preferred not to incur criticism, but there were few immediate Parliamentary pressures to cause them to stay within the EFLs in the face of conflicting pressures.

Therefore, it follows that the historically tight constraints on external finance faced by authorities in 1979 were a product of the attitudes of government and industries at the EFL planning stage, and the attitudes of the government towards the enforcement of EFLs. At the planning stage, the Government adopted a hard line in calculating the EFLs on the assumption of Phase 4 pay increases of 5 per cent and, in many cases, 10 per cent price inflation, although corporations no doubt expected higher rates of increase, given trends in late 1978 when the EFLs were discussed.[143] It is true, however, that internal revenue assumptions may have been potentially conservative, as in the previous year, due to corporations' errors or attempts to insert flexibility.

In controlling external finance, the Labour Government was strict. As indicated at the outset, no revisions to accommodate higher pay increases were made when Phase 4 crumbled. In any event, the public corporations accepted the discipline of EFLs in their internal budgeting.[144] Annual reports made it clear that keeping within the EFLs was an important objective.

Internal finance

While the political market structure and attitudes yielded a relatively high degree of control for the government over external finance in mid-1979, internal finance was not subject to the same politically-determined structures. Generally speaking, the government had limited power relative to the authorities in the sector, and sometimes was not predisposed to use what power it had to control internal finance.

The political market relationships between the Government and corporations concerning internal financial resources were complicated, having many dimensions. The parties interacted in the context of financial targets; performance indicators; laws relating to product market structure and output or service levels; corporate plans; appointments to Boards of Directors; and directives and informal pressure. Each is considered in turn to show the structure of the relationship between government and corporations and the implications for relative power. Also indicated are the attitudes of the influential actors in mid-1979 towards the control of product market revenue through those political market structures.

Financial targets, usually set in terms of total grant or a return on assets or turnover, were agreed by government and industry.[145] Although jointly determined, financial targets were technically capable of allowing the government to indirectly control the availability of internal finance. Primarily, they were intended to give an incentive to use capital efficiently, but in requiring certain returns, internal finance was pre-empted, other things equal. In order that the corporations faced an effective discipline, forecasts of costs and prices were made. Estimates were made of the cost of supplying the full output associated with the corporation's assets, based on the required rate of return laid down in the 1978 White Paper, counter-inflationary policy, and the scope for raising efficiency. Using this as a basis for prices, demand was estimated. From this, cash flow was calculated and the financial target derived.[146] Therefore, if the non-pay assumptions were correct and the targets respected and enforced, pay budgets were constrained. Annual reports were to publish outcomes against target, to explain deviations and, where appropriate, to comment on how corporations intended to improve their performance. Public and Parliamentary awareness could be heightened.

However, the attitudes of the government and corporations did not yield great control in 1979. At the planning stage, it was true that the government appeared in a strong position to fix the targets it preferred. For example, the target for BGC was imposed and the government played a leading role in setting that for the electricity supply industry.[147] The financial targets, were tough in that they reflected the assumptions of the

Government's Phase 4 incomes policy. However, in July 1979, BAe, BAA, BRB, BWB, NBC, NCB, NFC and STG had no published targets. Elsewhere, although some industries in 1979 faced single-year targets, others were set to be achieved over a three-to five-year period. Indeed, the targets were originally conceived as a medium-term financial control.[148]

When targets were implemented, the corporations did not always respect them and the government did not enforce them. Authorities preferred to meet the targets for reasons of corporate pride, but in some cases, where their economic market position allowed, achieved them simply by raising price, defeating the attempted restrictions on internal finance. For example, previously, the PO had been discovered to price its services on a cost-plus basis, the costs including the outcome of pay negotiations and the 'plus' being the financial objective.[149] Some others ignored the target where it was difficult to attain. For instance, in 1977 the British Transport Docks Board (BTDB) had been set a target of a 20 per cent return on capital by 1980, but was prepared to yield to higher wage demands before meeting the target. The Chairman said:

> To achieve that return on capital looks quite difficult now but will depend very largely on whether there is industrial trouble over pay controls.150

Although financial targets were cited and related comments were made by the corporations in their reports, the Government, Parliament and the public did not appear to put pressure on recalcitrant authorities. Nor did th Government recalibrate targets to conditions where the assumptions were unrealistic: the BTDB did not have a new target until 1980, for example.[151]

Performance indicators provided little more control over internal finance. The political market structure bore similarities to that relevant to financial targets. Both corporations and the government, through the sponsoring departments, were involved in selecting indicators and deciding on appropriate objectives. Control over internal finance was technically feasible if the indicators were appropriately designed to cover service standards and prices. Requirements to maintain services in unprofitable areas, and to maintain the same standard of service elsewhere, could limit the ability of the corporation to increase pay budgets by cutting the volume of service or non-pay expenditure. Price objectives could curb the product market power of authorities and thus could limit revenue.

The political market structure, in giving power to both corporations and government in setting indicators, produced varying constraints depending on which views dominated. The general case was that in 1979 authorities were reluctant to establish performance targets and indicators due to problems of measurement, the uncertainty of contingent conditions and beliefs that they were unnecessary.[152] Where indicators were established, it was rare for there to be targets. Price indices were usually shunned in favour of service or output measures.[153] Thus the government was able to impose significant constraints only in certain cases. For instance, the PO was not supposed to increase its prices any faster than the general level of prices between 1978-79 and 1982-83. Also, for BGC it was 'the government's wish that gas prices should be maintained in real terms during the financial year 1979-80.'[154]

The lack of enthusiasm for performance indicators in principle was compounded by the lack of full respect and enforcement in practice. Corporations were tentative in reporting performance for reasons of commercial confidentiality and fears that the data might be misleading.[155] The significance of indicators was rarely explained, and comments on trends to facilitate scrutiny were unusual. Some outcomes were not consistently reported each year.[156] Public and Parliamentary exposure were the only inducements to conformity.[157]

The other dimensions of the political market relationships between the government and corporations gave the government some power to exercise influence over internal finance, but it was not being used aggressively in mid-1979.

The government was in a position to use its statutory powers to define the economic market structure and the duties of public corporations so as to restrict the ability of authorities to increase revenues. For instance, the Post Office Act, 1969, had given the PO a monopoly: it was

> in particular to provide... such services for the conveyance of letters and such telephone services as satisfy all reasonable demands for them.158

This facilitated revenue increases through price increases. No attempts were being made in 1979 to curb these monopolistic powers. The market structures that had existed since nationalisation were maintained.

The state of the political market relationship regarding statutory duties continued to constrain finances somewhat through the requirement that industries serve a wider market than they would normally contemplate on the basis of commercial criteria. For example, the Electricity Act, 1947 (as amended by the Electricity Act, 1957) stated that:

> the Electricity Boards shall... secure as far as practicable the development, extension to rural areas and cheapening of supplies of electricity'.159

The supply of electricity to certain rural areas was unprofitable in itself and hence reduced the availability of finance.

Corporate plans, the product of a dialogue between the civil service and public corporations concerning the economic climate, market conditions, to facilitate scrutiny were unusual. Some outcomes were not consistently reported each year.[156] Public and Parliamentary exposure were the only inducements to conformity.[157]

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Corporate plans, the product of a dialogue between the civil service and public corporations concerning the economic climate, market conditions, and corporate strategy,[160] were capable of affecting the funds available for pay through their implications for output and investment. For example, the NCB's plan included output objectives, and the BAA plan posited the level of service that was to be provided.[161] Revenue was thus potentially constrained. Derivative investment plans, for which the Treasury guaranteed partial approval for future years, also carried implications for cost effectiveness and the availability of pay funding from savings. However, the degree of influence of the corporate planning mechanism should not be exaggerated. Objectives were prone to be overridden by short-term pressures, such as the need of the Treasury to reduce EFLs in pursuit of lower public spending.[162] Further, the high turnover rates of Ministers and civil servants meant that there was little political commitment to any plan.[163]

The government also had the statutory power to appoint the chairmen of the nationalised industries, and the board members, after consultation with the Chairman. Through judicious choices, the corporations' financial policies could be influenced at second hand. In 1979, the government's power was hampered by the conventional terms and conditions of appointment offered. Relatively low pay compared with the private sector, caused by government rejections of the recommendations of the Top Salaried Review Body, together with short-term appointments, made suitable candidates difficult to attract.[164] Furthermore, the Labour Government frequently consulted with trade unions over appointments with the result that fiscal restrictionists were unlikely to be selected. In any case, the Government itself did not wish to weight Boards with individuals renowned for financial control: as the 1978 White Paper had made plain, the Government saw a role for members to be drawn from a range of backgrounds: from trade unions, consumer groups, and the civil service, in particular, as well as business.[165]

Statutes also empowered Ministers to give Boards directions of a general character on particular subjects, and in the national interest.[166] In addition, the 1978 White Paper allowed specific directions after consultations with the industry concerned.[167] But detailed intervention was not permitted. Therefore, the power of the government was not absolute: it was compromised and diffuse. It was sparingly used by the Labour Government.

Through informal pressure Ministers technically had more power over corporations. Boards were in a position where to resist would have put their reappointment in jeopardy. They were under moral pressure to acknowledge the nation's stake in the corporations.[168] In the event of public rows, it was hard to win public support since the Government's public relations machinery was stronger, and it was bad for business.[169] In spite of their potential influence over internal finance, Ministers in the Labour Government in 1979 were not in the habit of meeting Chairman other than very occasionally. Sir William Barlow, Chairman of the PO for a spell, including the last 18 months of the Labour Government, only met the Labour Secretary of State four times and the Minister of State three times.[170]

Expenditure

Pay budgets were also capable of being influenced by government-corporation political submarket relationships which impinged on expenditure (rather than finance). Many of the control mechanisms discussed above were able to be used, particularly performance indicators and informal pressure.

In practice, though, the Government was not in a position to influence authorities, or chose not to, for reasons identical to those cited earlier.

Given aggregate budgets, technical factors bore most heavily on the allocation of funds between expenditure heads. It was easier to increase pay budgets when the proportion of labour costs in total costs, including investment spending, was small. Thus the energy industries, the telecommunications part of the PO, BA, BS and BSC were relatively unconstrained in this respect, while the postal service and transport industries faced more difficulty.

The industry political submarket

In the industry political submarket were, on the one hand, the corporations, and, on the other, bodies that mostly interacted with them directly, rather than indirectly through the government. The predominant parties other than the corporations themselves were the industry consumer councils such as the Electricity Consumers' Council (ECC), the National Transport Consumers' Council (NTCC), the National Gas Consumers' Council, the Post Office Users' National Council (POUNC), the Domestic Coal Consumers' Council, and the Airline Users' Committee.

In the political submarket, the councils' role was to consider any matters affecting consumers.[171] Their powers of representation after the 1978 White Paper included a voice at national level as well as regional representation where appropriate, as is the cases of the ECC, and services considered by the NTCC. Members were appointed to Boards in some cases, such as the PO.[172] Theoretically, when a recommendation was made by a consumer council, the industry and council agreed necessary action. The power balance in fact favoured the corporation, because it could refuse to act on a recommendation if it wished.[173] Indeed, in the late 1970s the views of councils were acknowledged and valued, but did not prevent discretionary action by authorities over, for example, pricing.[174] The National Consumer Council was concerned at the lack of weight given to councils' proposals.[175] In other words, the industry political submarket did not appear to be a significant constraint on the autonomy of public corporations.

(iii) Summary

To recapitulate, public corporations determined their ability to finance pay increases in an environment that was jointly economic and political. External finance was subject to tight political constraints. Together, the government and corporations agreed EFLs, but within this structure, the Government adopted a tough stance in 1979, refusing to raise the EFLs to accommodate higher pay increases. Once set, there were effective administrative mechanisms to achieve compliance. Internal finance was affected by both economic and political factors, but economic constraints dominated. The competitive market structure and generally adverse demand trends limited the finances of transport and manufacturing industries, while the monopolistic structures of the energy and communication industries and rising demand trends facilitated a greater ability-to-pay. Politically-determined rules, laws and decisions impinged on internal funds, but some had technical deficiencies that reduced their effectiveness, and the Government showed few signs of enforcing financial control. Expenditure was not significantly affected by the political market either, but, following from technical exigencies corporations with low labor-total cost ratios found it easier to increase pay budgets at the expense of non-pay spending.

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2.1.4 The economic-political environments in the public sector in 1979

The economic-political market constraints on the financial autonomy of public sector authorities clearly varied from sector to sector in terms of form and intensity. At this stage, it is worth summarising schematically the situation in 1979, including the differences between authorities, so that in due course, in Chapter 6, the impact of the Conservative Government's pay restraint strategy can be clearly ascertained.

The criteria used to differentiate the degree and nature of authority autonomy parallel those used in the text. As far as the centre-periphery political markets are concerned, the market structures can be visualised as having yielded power relationships of three main types: unilateral government control, negotiated control, and autonomous authority control. Within each market structure, the attitude of the centre towards controlling finance can be typified, at the risk of oversimplification, as tight or lax.

With regard to other political markets and economic markets, their influence depended not only on structure, and attitudes or trends, but also on the extent to which they were pertinent to the economic-political environment. Their relevance can be simply summarised as non-existent, partial, or full (if the centre-periphery market was irrelevant). Market structures tended to be monopolistic or competitive, according to the extent to which authorities had to compete strongly, politically or economically, to raise additional finance. Market trends or attitudes were broadly favourable or unfavourable to increasing budgets in real terms.

Of subsidiary importance to these market characteristics was the technical factor of the labor to total cost ratio. This was generally 'low' - around 25 per cent - or else was 'high', over 40 per cent.

Centre-Periphery Political Markets			Other Political and Economic Markets									
			Extent of Markets' Influence									
Market Power Relationship	Centre's Attitude to Control	Labor Cost/ Total Cost Ratio	None		Partial				Full			
					Market Structure							
					Competitive		Monopolistic		Competitive		Monopolistic	
					Market Trends and Attitudes							
			UnFav.	Fav.	UnFav.	Fav.	UnFav.	Fav.	UnFav.	Fav.	UnFav.	Fav.
Unilateral Government Control	Tight	High										
		Low										
	Lax	High										
		Low										
Negotiated	Tight	High										
		Low										
	Lax	High		CG	NFC,NBC	BRB	NCB	LAs,PO, BWB				
		Low			BA,BS, BSC			ESI,BGC, NWC,BAA				
Autonomous Authority Control	Tight	High										
		Low								Private Sector		
	Lax	High										
		Low										

Table 3.1 Extent of Public Sector Financial Autonomy in 1979

The table combines all these dimensions of the environment in which pay budgets were determined. An authority in the northwestern quadrant of the table would be relatively tightly constrained by the government and other markets, while an authority in the southeastern corner would enjoy relative autonomy.

The allocation of public sector authorities according to their environmental characteristics in 1979 shows the central government sector more constrained than other sectors due to its dependence on the centre-periphery political market. However, in that year it still experienced negotiated constraints, laxly controlled, albeit with difficulties of pay--non-pay substitution. Local authorities were relatively autonomous due to the same kind of centre-periphery political market in central government, but, in addition, with a local political market in which they held a monopolistic position and which they were using to fund real expenditure growth. Public corporations were under more variable constraints. Commonly, they were under negotiated and lax central control on the whole, because while external finance was reasonably well restrained, attempts at controlling internal finance were generally weak. Against this background, they experienced different economic market conditions and technical possiblities for expenditure substitution. Least autonomous were the NBC and the NFC, closely followed by BSC, BS and BA. The most autonomous were the public utilities and the BAA.

In conclusion, it is important to recall that the prospects for wage inflation were not solely derived from the financial context, although it was a key force. Also relevant were the institutional and strategic contexts. These are considered in the following two sections.

2.2 The institutional context

The institutional forces which bear on pay decisions, it will be recalled, are the internal organisation of the parties, the structure of collective bargaining, and pay determination procedures. It was evident in 1979 that certain institutions, especially pay determination procedures, promoted greater pay rises than might otherwise have been negotiated under alternative institutional arrangements.

2.2.1 The internal organisation of the parties

The implications of the manner in which management and unions are organised for the level of wage increase depend on the role composition of each side, that is, the individual organisational positions and the bodies that are relevant to collective bargaining; the relative power of those individuals and bodies in the process of decision-making over pay; and the institutional mechanisms of control and communication whicn help determine the locus of power.

In management, the capability for control of pay existed up to a point, but inherent weaknesses were apparent in each of the major sectors. In central government, civil service pay determination involved an official side which consisted of senior civil servants from the Civil Service Department (CSD), and the relevant unions. Pay control within the management side was facilitated by the requirement that the civil servants be the agents of, or spokesmen for, Ministers; regardless of their personal feelings, or occupational identity, they were to implement the wishes of the government. However, this strong vertical power relationship was tempered by the weaker links between the CSD and the Treasury. As Mrs. Thatcher said:

It divorced central responsibility for the control of manpower from responsibility for the control of government expenditure.176

A tight rein on bargaining was thereby prejudiced.

In the NHS, the management sides of the joint councils were comprised of a secretariat furnished by the Department of Health and Social Security (DHSS), and regional and area health authority representatives. As in the civil service, strong vertical control was seen. Formally, the Secretary of State approved agreements, but more important than this was the influence of Ministers through the DHSS representatives.[177] As the Society of Radiographers told the Royal Commission on the NHS:

...the majority of members of the Management Side appear to have little or no control over the total amount of money available... We believe that if negotiation is to have any real meaning then all the Management Side members must be able to take a full part in negotiations and not be over-ruled by a few powerful DHSS members.178

Yet some deficiencies of control still existed; in particular, the management sides of the Whitley Councils were criticised as being poorly informed and coordinated.[179]

Local authorities showed less evidence of effective internal control of pay strategy. Management Sides consisted of representatives of the local authority associations and sponsor departments, together with Provincial Council representatives in the two major, manual and white collar negotiations. The Local Authorities' Conditions of Service Advisory Board (LACSAB) provided the Secretariat.

Vertical control was variable. On the one hand, it was tough in the Burnham Committees on education and the Police Council. The Department of Education and Science (DES) representatives had a disproportionately large number of votes, though not a majority,[180] while the Home Office had considerably more power than warranted by its role as employer of one section of the police force, the Metropolitan Police.[181] The relevant Ministers were also responsible for giving statutory authority to agreements. In addition, the Education Secretary determined the composition of the Burnham sides, and appointed the independent chairman. Elsewhere, government control was less in evidence. While a DoE working party had overseen pay negotiations in 1978-79, it did not appear to have an impact.[182]

There did not appear to be much control over LACSAB. Vertically, individual local authorities had little say in matters. Consultation occurred through the 'sounding board' procedure which operated through the employers' sides of the Provincial Councils. However, requirements of speed and confidentiality restricted consultations during negotiations.[183] Consequently, it was felt that inadequate account was taken of financial considerations. As the author of a Society of County Treasurers memorandum put it:

> Whilst I recognize that Personnel officers have a contribution to make, I am concerned when I hear comments about Personnel Officers advising elected members on the size of pay awards which authorities can afford and on the detailed aspects of the pay awards which Treasurers have to implement.184

Horizontally, within the negotiation bodies, financial control was weak in part because the provincial councils (and thus their representatives) had no responsibilities concerning finance or the rate support grant.[185] The Associations, which were concerned with finance, did not have control because of the provincial council votes on two bodies, and the internal organisational difficulties of appointing and coordinating hundreds of members to bodies.[186] Also, association members tended to identify with their negotiation body rather than with associations.[187] Further, the size of negotiation bodies meant that the LACSAB secretariat effectively negotiated agreements outside formal meetings. As the AMA put it in 1979,

> The negotiating bodies as they operate at present are both unwieldy because of excessive numbers and not under the political control of the Associations. As long as this situation continues, the bringing together of decisions on pay and finance cannot be achieved.[188]

Public corporations, on the whole, had organisational structures that promoted a balanced attitude towards pay control. On the one hand, there was no monolithic control by government of the kind seen in central government, since it had no formal role in the day-to-day operation of nationalised industries. On the other hand, personnel departments did not have free rein to do as they wished. The usual practice was for power to be shared between the department and the Board. The industrial relations function would advise the Board on negotiation strategy, and Board members would weigh up the financial and personnel implications before deciding on the license to give negotiators. Horizontally, at Board level, typically both finance and personnel functions would have a hearing: as a 1980 survey showed, the extent of specialist representation of the personnel function at board level was of the order of two-thirds of nationalised industries outside manufacturing and coal, while board representation of some sort was even more prevalent.[189] The implication of this power structure was that pay increases could conceivably be even more inflationary than financial circumstances implied, but, equally, pay could be contained to well within the ability-to-pay.

The organisation of the union side did not threaten inflation in 1979. First of all, at the intra-union level, the negotiators, generally national officials, were usually relatively autonomous in fact, although they were formally enmeshed horizontally and vertically with union leaders and the rank-and-file in a variety of communication and control mechanisms. Some negotiators acted within systems of ballots, conferences and committees, which variously advised on claims and/or approved offers. Others had to respect union policies in the formulation of claims. Nonetheless, negotiators had a large degree of freedom in the determination of bargaining stances, in recognition of the pressures of bargaining. They were also in a position of authority to make influential recommendations when submitting offers to votes. Generally speaking, the relative power of negotiators meant that more moderate attitudes prevailed in bargaining, forced as they were by the nature of the job to compromise.[190]

Second, at the level of joint-union bargaining - a very common practice in the characteristically multi-union setting of the UK public sector - relative power formally depended on the distribution of seats between unions, usually in relation to union membership in the bargaining unit. It is difficult to guage whether this organisational principle was unduly inflationary: it was probably not, for three reasons. First, it allowed less militant professional associations voting rights. Second, recently-expanding unions were often under-represented because seat allocations were slow to change due to inter-union rivalry; and since this often affected NUPE, a more militant union, negotiators adopted less strident attitudes. Third, the allocation of seats was only of significance in voting on offers, when to accept or reject generally only made the difference of a small fraction of the offer already tabled.

Third, on the wider level of inter-union coordination, through, for example, the TUC Industry Committees (such as the Public Services Committee and the Nationalised Industries Committee), little effect on pay bargaining was seen in 1979. A 1971 conference sponsored by the TUC had underlined

	Most important bargaining level			Relevant bargaining levels		
	Public Sector	Nat. Inds.	Pub. Admin.	Public Sector	Nat. Inds.	Pub. Admin.
National/regional	75	51	80	79	52	84
National/industry	73	50	78	77	51	83
Regional/district	2	1	2	11	5	12
Company/enterprise	23	48	18	34	51	30
All establishments	22	46	17	30	48	26
Some establishments	2	2	2	5	6	5
Plant/other	2	1	2	9	6	9

Table 3.2 Bargaining levels of establishments recognising manual unions.

Source: Daniel and Millward, op. cit.,

the desirability of coordination between unions, but this was constrained by the organisational constraints of the unions. Vertically, within the power structure, the industry committees had no power to interfere in the negotiations of individual unions. They confined themselves to a general role of ensuring that public sector pay was not treated more restrictively than elsewhere.[191] This was attempted through political, rather than industrial, pressure. Vertical influence was also imperilled by the patchy publicity given to committee reports and policies in individual unions. Not all representatives reported back to their governing bodies.[192] Horizontally, too, there were weaknesses of committee influence caused by inter-union rivalries. In some cases it was not simply that policies were not implemented by some unions, but rather the ideas did not get off the ground in the first place. Indeed, the idea of a public services committee had been put forward by NALGO the year before David Basnett floated it, but the GMWU rejected it at that time.

Therefore, organisational factors were not forces for inflation on the union side. However, the management structures of public corporations and local authorities may have weakened resistance to pay claims.

2.2.2 Bargaining structure

Although the interpretation of the effects of bargaining structure is notoriously difficult, as the theoretical discussion made plain in Chapter 2, the weight of evidence points in the direction of bargaining structure containing wage inflation. In the public sector centralised bargaining dominated. The 1980 DE/PSI/ESRC survey showed that the most important level in establishments recognising manual unions was overwhelmingly the national/industry level. In fact, this understates the extent of centralised bargaining, for in most authorities, company/enterprise bargaining (covering all establishments) also implied national-level negotiations. The combination of the two categories accounted for approximately 95 per cent of establishments, as the table indicates. Exceptions included certain universities, British Aerospace, and a few Passenger Transport Executives . Supplementary bargaining sometimes occurred at other levels, for example over incentive schemes, but regional/district, partial-company, and plant bargaining was only 'relevant' in a small minority of establishments.

It has been argued by the Institute of Directors that the centralised nature of bargaining has given trade unions the power to pursue unearned pay increases, obstruct productivity improvements, and hold national strikes with wide consequences.[193] However, there is good reason to believe that centralisation actually helped more than hindered the control of wage inflation. First, centralised negotiations facilitated administrative scrutiny and control. Second, the settlements were more visible than decentralised deals, heightening public and government attention. Indeed, the rank-and-file of local authority unions were unhappy with centralised bargaining, especially white-collar workers who had no opportunity to profit from incentive bonus schemes during the confining incomes policies of the late 1970s. Thus the 1978 NALGO Annual Conference rejected an NEC paper which argued that the National Whitley Council system was still most appropriate. Also, the social workers had struck in order, inter alia, to establish local bargaining.[194]

At the national level - the most important level of bargaining - the number of bargaining units was relatively small in most cases. In central government, civil service unions bargained separately over the rates for their grades, but a common pay survey was carried out by the Pay Research Unit (PRU). Universities in the bargaining consortium dealt with one academic and four non-academic units. Although the NHS had eight Whitley Councils, a Review Body for doctors and dentists, and separate negotiations for the maintenance staff groups, and the local authorities had 24 bargaining units, many were very large. In the nationalised industries, it was common to see between three and five units in each authority; perhaps there would be two manual units, one for general workers, one for craftsmen, and the remainder for various white-collar occupations, such as administrative, clerical, and managerial workers. The striking exceptions were in BA, where there were 11 National Sectional Panels covering detailed occupations, and in the PO, where each union negotiated separately. (BS had just consolidated its bargaining units in March 1979).

The high degree of unit concentration, and the fact that the fragmented units in local authorities and the NHS were often large, meant that settlements were highly visible and thus more susceptible to control.[195] Further, this dimension of bargaining structure avoided the frequently-cited problem of private sector bargaining, namely fragmented settlements which induced comparability claims and competitive bargaining.[196]

Bargaining form also worked to control wage inflation. Public sector agreements were typically formally written down in a precise and detailed manner.[197] In this, they were much tighter than in the private sector, usually carefully regulating the ability of management and workers to generate additional pay increases.[198] For example, the electricity supply industry incentive schemes were closely circumscribed by the formality of the national agreements.

Bargaining scope did not appear to be an abnormally inflationary force in 1979. Renumeration topics were much the same as in private industry. Although public sector unions had more rights to consultation than did unions in the private sector[199], there was no evidence that these powers resulted in more wage inflation. In fact, it has been argued that the fruits of consultation were limited.[200]

2.2.3 Pay determination procedures

While the public sector bargaining structure did not appear to generate higher inflation than alternative institutions, the pay determination procedures had characteristics that were inflationary. First of all, formal pay criteria, laid down in procedural agreements, served to increase the pay of certain public service groups faster than was likely under conventional collective bargaining. The criterion used was comparability. For the Armed Forces, this meant job evaluation, based on factor analysis, of service and outside jobs. Pay in the non-industrial civil service was derived from a pay survey exercise by the Pay Research Unit. Average earnings in the fire service were linked to the upper quartile of the New Earnings Survey (NES) distribution of adult male manual workers' earnings, (adjusted for the period between the April survey and the November settlement date), while the police service had its pay linked to the percentage change in the May average earnings index. In addition, in 1979, at the change of government, several public service groups were awaiting comparability assessments by the Standing Commission on Pay Comparability (SCPC) as the sole basis of their 1978-79 settlements.

That these procedures were potentially inflationary, at least in the eyes of the Conservative Party, was indicated by the narrowness of the comparability criterion. By definition, it did not automatically provide for rises appropriate on the grounds of labour supply and demand, and efficiency. As the Conservative Party delicately put it with reference to the SCPC:

> taking account of relative efficiency, job security and labour supply raises difficult theoretical and practical issues. Nevertheless, the Government believes that the Commission must tackle these problems if its work is to have the full confidence of the general public.[201]

Apart from the argument of principle, there were technical features which may have made the criterion unduly expensive. In the civil service pay research process, the selection of an external field of comparators generally resulted in the under-representation of small firms,[202] and a relatively large proportion of public sector authorities.[203] The concerns were that although large firms were more comparable in terms of pay structure, they also paid higher wages; and that the comparisons internal to the public sector were circular and fuelled wage-wage inflation. Similarly, the use of public sector analogues by the SCPC was criticised, as were those not sufficiently subject to market forces.[204] In addition, in some fields, such as technical jobs, the number of analogues was small so that the variance was high and the results statistically unsound.[205]

Secondly, at the working party stage in civil service pay determination, when 'true money rates' were negotiated, (taking into account differences in fringe benefits and other advantages between internal and external jobs), the value of the coverage of contributory and non-contributory pensions to the civil service was typically estimated at only 5 or 6 per cent,[206] and index-linking involved a 2.6 per cent deduction.[207] This appeared to many to be insufficient,[208] particularly as 63 per cent of central government employees were covered by non-contributory pensions, compared to 18 per cent in the private sector and 21 per cent in the public sector, and because few private sector schemes followed the cost of living closely.[209]

Finally, since the comparability formulae were being operated in 1979 with the object of catching up ground lost over more than one year, the rises implied by the criterion were likely to be large relative to the current going rate. This was accentuated to the extent that the formulae operated with a lag and the wage inflation rate was falling.

Another significant procedure in public sector pay determination that was a potential threat to wage inflation in 1979 was the access of many groups to third parties. Some groups had their pay determined by third parties on a permanent basis: Review Bodies set the pay of the armed forces, doctors and dentists, and top-salaried groups. Certain other groups were in the process of having their pay fixed by third parties on a one-off basis: as indicated above, many in the public services were the subject of SCPC references, and some in the public corporations were undergoing arbitration. Even where bargaining units were not actually using third parties in mid-1979, most had access to arbitration on a unilateral basis if they so wished.

The facility of third-party intervention appeared liable to generate pay increases that were relatively inflationary. The difficulties with the SCPC have already been cited. Review Bodies' inquiries were rife with inflationary features. First, the pay criteria used tended to neglect market-oriented factors. The armed forces, it will be recalled, had their pay determined by comparability. Relative pay increases featured prominently in the other two bodies, although it was never attempted to match the level of top-salaried renumeration in the private sector. Also, from time to time, the cost of living and tax changes surfaced to play a role in the doctors and dentists case. Second, the pay research process had defects. In specifying the internal field, there was no job evaluation exercise carried out for doctors and dentists at all, nor in the recent past for top salaried groups. Analogues were far from scientifically determined. Doctors' and dentists' pay was supposed to stay at the same percentile on the NES non-manual pay distribution. Top salaried analogues had been found in 1973 by an Advisory Group, but the Review Body had since generalised those comparators to include others with a similar job title. Third, of themselves these criticisms of principle and practice need not have been any more inflationary than conventional collective bargaining, but they became more problematic when implemented by the Review Bodies. The Bodies seemed to adopt a client relationship vis-a-vis their charges, as evidenced by subjective assertions regarding trends in morale and the primacy of their groups' claims over those of others in the community. Fourth, the implications of the Review Body deliberations in 1979 were that large catch-up increases were required to bring pay levels up to date.[210]

Unilateral arbitration was of concern because, as the Conservative Party said:

> Experience is that awards frequently came down in the employers' favour. But it is important that arrangements for arbitration should not weaken the employer's negotiating position by always providing an appeal to a third party to seek an improvement to a "final offer"... Ministers... have doubted whether arbitrators always take proper account of what the employer can afford to pay and of the wider national interest.211

Local authorities, similarly, resented the lack of control over third parties.[212] Furthermore, there were indications that unions saw arbitration as a means of obtaining higher increases. One union official in the industrial civil service was reported as saying:

> We were finding that whenever we had a disagreement about something and went to third-party arbitration, we always got more

from the Government than we could ever negotiate. The Government was much more likely to accept a position when it came from an outside body.213

Regarding the structure of the pay round, the intervals between settlements were customarily 12 months, the spacing that was established in pay restraint policies in the 1970s with the intention of reducing the chance of escalating inflation. The effect of the order of the pay round was unclear, however. In 1979, most public sector workers settled in November, January, April or July, within the context of an August-July pay round. The CBI argued that since many public sector groups settled early in the round, before many private sector units, they set target increases which were not necessarily related to the capacity of the market sector of the economy to pay. Inflation, it was held, was therefore unduly high.[214] On the other hand, the unions believed that the pay round served to reduce their gains. The local authority manual settlement was seen as a key bargain because of its early, November, date, and its wide coverage (of a million workers),[215] but the unit had little leverage to set a high target.[216] In addition, the spread of settlements throughout the year was seen as reducing the sense of identity of workers and the potential for mutual support, although the same could be said of employers.[217]

Payment systems largely helped control pay increases because a large proportion of pay was in the form of basic pay and allowances. For non-manual workers it was over 90 per cent, and was approximately 70 per cent for manual workers. Most of the remainder of total pay was overtime pay. Less than 10 per cent of manual pay was accounted for by PBR and other incentives, there being fewer schemes than in the private sector, and those in the public sector being concentrated in the industrial civil service, local authorities, the gas and electricity industries, and BR workshops.[218]

The high proportion of basic pay limited the scope for increases in pay outside negotiations. Indeed, as a result, in previous policy episodes, public sector groups had often lost relative standing in the pay hierarchy.[219] It gave rise to frustration on the part of NALGO workers, for example, who could see local authority manual workers benefitting from higher overtime and incentive payments.[220] It should be said, however, that certain incentive schemes were reputed to be loose. For instance, the Local Government Audit Service report for 1979 showed that bonus schemes were sometimes not streamlined within authorities to yield consistent levels of pay for given output. Others were not based on work study but on historical targets. Supervision of schemes was often defective.[221]

2.2.4 Summary

The institutional context of public sector pay determination in 1979 bolstered pay increases, particularly through procedures involving formal comparability criteria and third parties. The organisation of management may also have facilitated the success of union claims in the public corporations and local authorities. Nevertheless, the largely centralised, consolidated, and formal, bargaining structure and the dominant pay systems aided the control of pay. Union structure, the scope of bargaining, and the structure of the pay round appeared to be neutral in impact.

2.3 The strategies of negotiators

Within the economic-political environment and the institutional context, negotiators' strategies influenced pay increases. Of importance were the preferred pay criteria; the economic, political and strategic power of the parties; and the politics of wage decisions within and between management and unions.

2.3.1 Pay criteria

The criteria that were being favoured in 1979 were comparability and the cost-of-living. Managements made a case for certain economic criteria, but they were less prominent in the context of the time. Apart from the SCPC cases, there were a number of groups which strove to preserve or re-establish long-established links with others. For example, in the NHS, administrative and clerical workers followed the non-industrial civil service, while craftsmen followed the relevant private industry agreements. Non-manual workers in the Atomic Energy Authority also followed the civil service. Manual water workers matched the pay of electricity and gas workers. Had the SCPC not been in existence, local authority building and civil engineering workers would have looked to the local authority manual woerkers, as would tne NHS ancillary workers. Elsewhere, comparisons were common too, but they were less rigid. The pervasive influence of the comparability argument was due to its apparent fairness to all parties. As the Priestley Commission argued in 1955, comparability was fair to the employee and employer and taxpayer because each was receiving or paying the same as in outside industry.[222]

The cost-of-living was of importance in the public sector, although comparability appeared dominant. As elsewhere in the economy, workers had expectations of at least keeping up with prices, if not actually increasing real wages. Indeed, under Stage 3 in 1973-74 most public sector groups negotiated threshold agreements to compensate for price increases over 7 per cent. The significance of regular increases to simply boost real pay levels - or prevent them falling by as much - was recognised by the Conservatives:

There is a very large number of working people - perhaps the

> majority - who have never gone without an annual pay rise. For them the pay round is expected to provide an automatic increase, delivered as it were with the milk; and as a result they have come to feel... there is no connection at all between their performance and their pay.223

The use of these criteria implied large pay rises in 1979. The relative and real pay of public workers had fallen during the Labour Government's incomes policy. NES data revealed that between April 1976 and April 1979 the ratio of public to private sector pay had dropped 10.1 percentage points. Public services had been most greatly affected, with local authorities falling 16 per cent points and central government 13.9 points. Public corporations had suffered only slightly, by 4.9 points. In real wage terms, over the same period, the public sector had lost 7.6 per cent: 14.8 per cent in local government, 12.2 per cent in central government, and 1 per cent in the corporations sector. To catch up, cover current inflation, and match private sector increases, required rises of over 20 per cent on average. This figure would have been higher in units where the process of comparison was subject to upward bias. The prognosis for pay control was correspondingly gloomy.

2.3.2 Bargaining power

Economic bargaining power was influenced by the costs of the bargaining process, the costs of industrial action, and the costs associated with the settlement, given the political and strategic power of the groups. In mid-1979 economic bargaining power lay with unions in most cases. Phase 4 had been relaxed, and although employers would not accede to every demand, the costs of negotiating high increases were not prohibitive in terms of time and intensity. While it is hard to assess the resources of public sector workers and unions for financing industrial action, the low level of strikes since the mid-1970s had probably allowed some accumulation of resources. In addition, the state of the law on social security meant that the dependants of strikers could claim supplementary benefit to cover basic needs, after deductions had been made to take account of other income, including strike pay. PAYE tax rebates were also paid. Academic analyses have questioned the significance of this source of economic power.[224] Nevertheless, the CBI certainly believed it to be important.[225] The costs of the implementation of settlements were unlikely to be significant in most instances, apart from delays due to awards being staged, because public spending allocations were to be revised to accommodate the greater part of pay bill increases. The exceptions to the rule were nationalised industries which had rigid EFLs; which could not raise price sufficiently due to demand elasticity; and which could not reallocate finance to pay expenditure heads due to a high labour-total cost ratio.

The economic bargaining power of management was limited; the costs of resisting claims were high. The bargaining process would have been long, given the earlier success of other public sector workers breaking through the constraints of Phase 4. The costs of industrial action were in many cases relatively high due to the essentiality of the goods and services and the immediate impact on the public and the consequent political costs - as indeed the Labour Government had discovered to its cost.[226] The costs of settling at a low level would probably have been considerable: there would likely have been discontent and labour market shortages.

Unions were also in a position to support their claims in the political market which focused on pay determination issues. Public sector unions commonly sponsored M.P.s so that, inter alia, their case for pay increases could be aired in Parliamentary debates and to senior government ministers. Meetings with Ministers and departmental officials were regularly scheduled, not only at the TUC level, but also at the level of the individual union. For example, in education and health there were working parties and advisory committees in various areas at which views regarding negotiations could be pressed.[227] Ties between the Labour Party and the unions meant that Ministers were relatively accessible when the Party was in office. Finally, the unions were able to lobby Parliament and departments.

The strategic power of public sector unions, given the economic-political and institutional contexts, reflected their organisational strength, technical factors, and the legal regulation of union organisation and action. Organisationally, the unions in the public sector were strong. In aggregate, public sector union density in 1979 was 82.4 per cent.[228] At industry level, density exceeded 90 per cent in national government, the energy corporations, and posts and telecommunications. Transport industries were above average but varied, with railways and road transport showing very high membership rates, and port and inland water transport and air transport average levels. The NHS and local government were below average but, still, approximately three-quarters were organised. Organisational strength was helped by the closed shop. In 1980, in public corporation establishments with manual workers, 72 per cent of manual employees were in a closed shop. The comparable figure for central and local government was 22 per cent.[229]

The technological conditions of production yielded power to many unions. First, it was possible in some sectors to withdraw labour at certain points in the production process and cause significant disruption.

Examples included particular electricity workers, railway signalmen, and electricians and computer operators throughout the sector. It should be added tnat the output of some other groups would not be missed other than in the long run. Second, often for technical reasons, many authorities were monopoly producers, so no alternative sources of supply were available. This was important to union power in the public services and the energy and communication corporations, although in some cases in the past the government had secured replacement services in ostensible monopolies, such as the fire service.

While industrial relations law influenced relative bargaining power, it cannot be said that the basic tenets of the legislation were directed at that purpose as much as at more general objectives, such as order in industrial relations.[230] Organisational bargaining power, discussed above, was affected by laws relating to worker organisation. Under the Employment Protection Act 1975, independent unions seeking the right to negotiate with management, in the event of lack of success, were able to refer the issue to the Advisory, Conciliation and Arbitration Committee (ACAS). If the ensuing recommendations were not implemented by the employer, the Central Arbitration Committee (CAC) could make an arbitration award.[231] Employees also had the right not to be penalised by the employer for joining an independent union, or participating in its activities at an appropriate time.[232] Managements and unions were able to agree to establish closed shops, subject to the condition that workers with genuine religious objections were exempt, and could file for unfair dismissal if dismissed as a result.[233] The TUC's Independent Review Committee heard the cases of individuals excluded from closed shops by unions.

Power in negotiations was also influenced by the law relating to the disclosure of information and to industrial action. Subject to safeguards, employers were obliged to disclose information relevant to collective bargaining to recognised independent unions.[234] Trade unions were immune from legal proceedings for restraint of trade in contemplation or furtherance of a trade dispute, unless the actions were illegal for an individual. Union members enjoyed somewhat lesser immunities against actions in tort for damages.[235] Picketing was permitted, subject to an advisory limit of six, at the place of work in dispute and at other locations, such as customers and suppliers, in furtherance of a trade dispute.[236] In relation to both industrial action and picketing, the courts interpreted the words 'in furtherance' very widely so that indirect action was immune as long as it was genuinely believed to have some effect on the settlement of the dispute.

Taken together, these bases of relative bargaining strength gave public sector unions relatively significant power. There was some variation between units, with the energy industries in particular possessing comparatively great economic, organisational and technological power. Communications workers, other than postal workers, were also relatively strong. In contrast, the declining and competitive industries probably gave workers least power in 1979. Without relaxed cash limits, non-essential public service groups, especially white-collar workers, would have been weak. In broad concurrence with this analysis, the leaked Conservative Party Committee (Carrington) report of the late 1970s was pessimistic about the ability of the government to 'win' any confrontations, especially with the power and fuel industries.[237] Another committee, chaired by Nicholas Ridley M.P., ranked industries into three groups on the basis of their vulnerability. It saw the weakest as including the railways, the civil service, and the steel industry.[238]

2.3.3 Politics of wage decisions

Given the financial and institutional contexts, and given the extent of the ability to take industrial action in pursuit of claims based on preferred criteria, the exact demands made and action taken depended on the politics of wage decisions within and between unions and management. In mid-1979, the balance of attitudes within union politics was such that claims were being aggressively pursued. Of central importance was the disposition of the membership towards responding to perceived injustices. Prior to the 1970s, a unitary ideology had been predominant due to the nature of public sector work and the concept of public service.[239] However, a change of mood followed, apparently triggered by the relatively harsh treatment of public sector groups under the incomes policies of the late 1960s which disturbed hitherto-stable relativities. For example, NALGO members severely criticised their local government negotiators at a specially-convened conference in 1969, encouraging a perceptibly tougher negotiating stance thereafter.[240] Also, the teachers' action of 1969-70 marked the beginning of a new era. By 1979, while the unitary ideology still existed for some workers, as manifested in membership of professional associations, (in teaching and the NHS for example), rather than unions, a more pluralistic vision of industrial relationships prevailed. Unions were more 'unionate', being more prepared to flex their political and industrial muscle in given situations , as indicated by their membership of the TUC and record of industrial action.[241]

This prevailing sentiment was independent of party politics. Unions were militant, often in spite of conservative memberships. For instance, an NOP survey in October 1974, when the Labour Party won the election, found that only 30 per cent of a sample of NUT members intended to vote Labour.[242] At the same time, militancy was evident even when Labour was in office. For example, NUPE was strident in its opposition to the public spending cuts of the Labour Government in the 1970s.

The attitude of the leadership probably caused some variation in the militancy of the policies to be generated by union political machinery, but, in aggregate, militant leadership did not appear to be a decisive factor in 1979. Although leaders of such unions as COHSE and SCPS were quite militant, the leaders of the NUM, NUR, UPW and EETPU, for example, were relatively moderate, the NUR and UPW leaders being incomes policy advocates.

The grass-roots industrial militancy was met by a relatively receptive management in mid-1979. The ethos amongst management was generally of a pluralist kind, partly inculcated by the statutory requirement to bargain, and partly the result of self-selection, that is, the tendency of more enlightened managers to take up public sector posts in preference to private sector jobs. More important, managements had the objective of being a 'good employer'. For the non-industrial civil service, this meant that pay was to be related to pay levels of good outside employers.[243] According to the 1946 Local Government Charter, the local authorities were to be in the 'first flight of good employers.'[244] Incomes policy had overridden this view in the late 1970s, but when Phase 4 was relaxed, it came to the fore again in management discussions regarding wages.

The politics of management-union negotiations did not appear to influence the inflationary spiral one way or the other in 1979. Both sides generally shared pluralist outlooks and high-trust relationships which were conducive to each side achieving its objectives. Thus there were no significant additional factors, such as deception and macho-management or macho-unionism, introduced into the pay determination process.

3. Conclusions

Thus the newly-elected Conservative Government was anxious to control public sector pay due to its implications for the treasured objectives of low inflation and reduced public expenditure. The Government's anxiety was heightened by the inflationary factors at work. The economic-political environment was accommodating, except in certain public corporations where economic markets were competitive and deteriorating. The use of formal comparability criteria and third parties, together with management organisation in local authorities and public corporations were forces for high pay increases, but other features of the institutional context, such as bargaining structure and pay systems, helped control. Nevertheless, even where groups did not have third-party treatment or formal comparability criteria, they were demanding real and relative catch-up increases, enforcing claims with their significant bargaining power, and generally receiving favourable responses from the employers who were under a good employer obligation.

The strategy adopted by the Conservative Government against this backdrop in pursuit of its objective of controlling public sector pay, together with the reasons for the choice of approach, is discussed in the following chapter.

Notes

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5. *Economic Progress Report*, No. 109, May 1979, p. 6.
6. Ibid.
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10. *The Conservative Manifesto*, op. cit.
11. *Economic Progress Report*, No. 125, op. cit.
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PART III

ISSUE 2:

THE FORM OF THE FINANCIAL PAY RESTRAINT STRATEGY

Chapter 4

The Style and Distinctiveness of Pay Control Under Cash Limits

In the face of the inflationary pressures exposed in Chapter 3, the Conservative Government sought to achieve its objectives through the control of the finance and expenditure of public sector authorities. The focus of this chapter is on the chosen form of the strategy. To facilitate the analysis the first section identifies a number of key dimensions of pay restraint strategies. Using these as a framework, the policy prevailing in 1979-83 is outlined in Section 2 and is contrasted with previous approaches in Section 3. The reasons for the departure in strategy are considered in the fourth section. Conclusions are drawn in Section 5.

1. Dimensions of Pay Restraint Policies

Various attempts have been made to single out distinguishing features of pay restraint strategies. They tend to fall into two categories. One focuses on the rules governing pay increases. This tends to result from an explicit or implicit pluralist theoretical framework in which inflation is seen as caused by competing groups and the State's role is to regulate the real and relative pay objectives of the parties through rules. The second concentrates on the relations between the State and employers and unions in the process of wage restraint. This is often a product of a more radical perspective in which relations between classes are deemed important to the inflationary spiral, and the State is seen as directly or indirectly influencing those relationships. Unfortunately, the dimensions of strategies that are isolated are not without shortcomings, at least from the point of view of the present analysis.

The decomposition of policies on the basis of rules has taken a number of forms. First, some authors have considered only selected rules. For instance, McCarthy looked at 'targets', that is, norms and guidelines, and 'criteria', defined as exceptions and special cases.[1] Brown narrowed his coverage to procedural mechanisms in the design and enforcement of policies.[2] Burton drew up a seven-fold typology of policies based on the severity of the method of enforcement: government exhortation to designated patterns of behaviour; surveillance, analysis, and public exposure of undesirable wage movements; active government denunciation of non-cooperative behavior; paradigmatic behaviour in the public sector; the extraction of commitments to voluntary compliance; government intimidation and deterrence; and legal powers and sanctions.[3] The difficulty with these breakdowns of policy characteristics is their unduly restrictive focus: rules regarding both pay increases <u>and</u> policy support must be distinguished in any thorough analysis of approaches to pay restraint.

Some authors have had wider vision. Notably, Towers separated out aspects of design and implementation. The dimensions of policy design were the coverage or comprehensiveness of the policy; the extent to which it penetrates beyond a national policy; the degree of allowed flexibility; and the status and role assigned to agencies. The characteristics of policy implementation were the degree of compulsion; the timing and phasing of policy; and the complementarity of the policy with other policies and economic events.[4] In addition, Blackaby referred to variations in respect of norms, exceptions, cooperation and compulsion, and non-wage policies.[5] Similarly, Clegg discussed norms, exceptions, policy administration, and the restraint of other incomes and prices.[6] Tarling and Wilkinson looked briefly at the form of the policy (whether there was a freeze, or a norm with exceptions); sanctions; and administrative institutions.[7] The problem with these definitions of policy dimensions is mainly one of detail; the potential variations in design along each dimension are not distinguished.

In other exercises, the salient rules in policies have been determined and used to draw up typologies of approaches. Thus Braun categorized seven styles: freezes on temporary controls; informing public opinion; mandatory or voluntary implementation of guidelines; pay increase investigation and approval measures; coordinated wage determination, including compulsory arbitration; and institutional engineering.[8] In a similar view, Gennard and Wright distinguished exhortation; neutral expert reports; money incomes control; and collective bargaining framework agreements, where peak representative organizations decide the criteria for wage increases.[9] Robinson and Mayhew isolated incomes policies, institutional engineering, and indirect policies, such as labour legislation and labour market efficiency policies.[10] However, as the typologies stand, they are too broad to be useful. Rather than simply isolate dominant features, the present chapter defines the dimensions of strategies in detail.

Analyses of approaches distinguished according to the relationships between the State, employers and unions generally concentrate on the role of the State. Thus Crouch drew up ideal-typical positions of state domination: market individualism, liberal collectivism, and corporatism, and subtypes of these.[11] Along similar lines, Roche distinguished 'auxiliary' State control (through moral persuasion, facilities and inducements); corporate control based on legislative definitions of corporate statuses, institutions, and incomes policy arrangements; corporate control based on a social contract characterized by voluntary corporate institutions, and moral persuasion; and market control consisting of the reconstitution of markets and the control of the money supply.[12] While these are important broad distinctions, the choice of the particular enforcement rules too can exercise a significant influence on the pay determination process. A further problem is the neglect of the rules governing pay increases themselves.

Therefore, a new framework is required to analyze the components of pay restraint strategies. The framework must recognize the importance of the rules relating to both pay increases and to policy enforcement. With this in mind, the following two subsections consider the dimensions of policy design - the nature of the policy rules regarding pay increases; and the dimensions of policy support - the backing given to the policy design to ensure its provisions are effective.

1.1 The design of public sector pay restraint policies

As many previous analyses have pointed out, there are two main types of rule relating to pay increases: they can be termed the 'general pay rule' and the 'exceptions' to the rule.

1.1.1 The general pay rule

The general pay rule specifies the increases which all groups subject to the policy are permitted by the policy to receive. Rules vary qualitatively in terms of three features, each reflecting an aspect of the stringency of the approach taken by policymakers:

i) the level of the economy at which the rule operates - whether it applies to the economy in aggregate; to an individual authority; at the level of the bargaining unit; or within, to the individual employee.

ii) the monetary focus of the rule: it may be directed at the financial budget; the pay bill; or average pay increases.

iii) the quantitative precision of the rule. Budget finance may be governed by limits, or possibly ranges. Pay bills and average rises may be subject to unqualified rules, such as 'responsible bargaining', or quantified rules, such as norms (with rises permitted above and below), ranges (where maxima and minima are fixed), and limits (where there is simply a maximum). Individual rises may be fixed or they may be conditional (where some, but not total, leeway is allowed in the distribution of the pay bill or average increases).

An example illustrates the meaning of the three features of general pay rules. The Labour Government's Phase 4 of 1978-79, which preceded the introduction of the Conservative Government's policy, initially involved a general pay rule directed at the level of the bargaining unit, focussed on average pay rises, and imposed a limit of 5 per cent.

1.1.2 Exceptions

Exceptions are provisions in the policy which permit increases (in pay or finance) in excess of those facilitated by the general pay rule. Two types of exceptions can be distinguished.

i) Exemptions clauses state criteria which, if met, automatically allow additional rises to a specified extent, subject to local agreement. For example, productive overtime might be allowed to be rewarded at the usual premium rates. Four gradations of control can be defined, albeit rather artifically: first, where there are no exemptions; second, where only work-related exemptions are permissible, such as increases in finance resulting from greater service or output levels, and rises in pay due to increases in productive overtime, changes in shiftworking, payment-by-results schemes, and increments; third, where other exemptions of minor total cost are allowed in addition; and, finally, where other exemptions of relatively large total aggregate cost, such as threshold payments and productivity deals, are also permitted.

ii) Special case provisions permit increases in pay or budgets above those facilitated by the general pay rule, but only in limited instances. The attainment of particular standards does not automatically imply entitlement to extra-large rises. The government or a nominated adjudicator has the task of selecting groups for special treatment. Broadly speaking, the policy on special cases might be to preclude them altogether; to allow them, but on a limited basis; or to allow them on a wide front.

1.2 The support of public sector pay restraint policies

To achieve compliance, public sector pay strategies may be supported in three ways: by agreement to the policy; by enforcement measures; and by auxiliary policies.

1.2.1 Policy agreement

The style of policy consent is determined by two features:

i) the parties to agree to the policy design: whether none do, or just employers or unions, or both employers and unions.

ii) the basis of the agreement: whether the agreement is secured through (contingent or guaranteed) benefits for the parties in return for restraint; or through shared norms. For example, Phases 1 and 2 (1975-77) were agreed by the unions at peak organizational level on the basis of a contractual arrangement which was supposed to give them greater influence over economic and social policy-making.

1.2.2 Policy enforcement

Enforcement refers to the steps taken to ensure compliance with the policy. The key aspects of enforcement are monitoring and preventative or remedial action.

i) Monitoring is the process by which policy operators are made aware of the response of target bodies to the policy design. It involves both 'informing' and 'vetting'. Informing is the alerting of policy administrators to provisional or final outturns of expenditure or pay rises. It may be attempted through independent discovery by the policy operator, or automatic notification. Vetting is the assessment of whether the policy design has been violated. It may be carried out by the government or a nominated administrative body, or by a peak organization.
ii) Preventative or remedial action relates to the actual or threatened use of measures to stimulate compliance. Various approaches are possible: there may no action taken; government exhortation and education may be seen; intra-organizational exhortation, for instance by the TUC or CBI, may occur; or legislative penalties in the form of fines or imprisonment may exist, as may administered sanctions, such as through TIP (tax-based incomes policy) schemes, or the public expenditure system.

1.2.3 Auxiliary policies

The third and final means of enforcement is through auxiliary policies, which influence the extent to which target units comply with the policy design. It may be that the primary aims of the policies do not pertain to pay control in the public sector, but intentionally or otherwise they do have an impact. Examples include general economic policy, other cost-control strategy, and policy towards the legal regulation of industrial relations.

General economic policy affects the demand for labour. Through the implications for bargaining power and the room for manoeuvre within financial budgets, pay increases can be influenced. Also, economic policy determines the level of direct and indirect taxation, and thus real disposable income and pay claims. Private sector pay policy is important to public sector pay control because it determines the degree to which public-private pay differentials are kept in line, and hence the extent to which relativity claims surface in negotiations. Policies to control other costs and prices, also influence the salience of public sector pay claims that reflect eroded real and relative pay levels. Trade union legislation policy influences the bargaining power of unions, and hence the intensity with which claims are pursued.

2. The Style of the Cash Limits Pay Restraint Strategy 1979-83

With the complete analytical framework in mind, the Conservative Government's strategy of 1979-83 can now be described element by element. The main objective is to outline the style of the approach with only perfunctory attention to the details of the rules and policy support. The minutae of the operation and the impact of the policy will be explored in greater depth in Chapters 6 to 8.

2.1 The general pay rule

The essence of the strategy was to limit the ability-to-pay of the authorities in the public sector. In the words of the Conservative Manifesto:

> Pay bargaining in central and local government, and other services such as health and education, must take place within the limits of what the taxpayer and ratepayer can afford... In the great public corporations, pay bargaining should be governed, as in private ones, by what each can afford. There can be no question of subsidising excessive pay deals.13

To this end, the Government set cash limits on Exchequer finance to central government and local authorities, and external financing limits (EFLs) on public corporation grants, Public Dividend Capital, and borrowing. In determining the limits, the Government had regard to its public spending volume plans, (at least until 1982-83 when cash figures per se came to dominate), and to its willingness to provide for cost increases through the so-called pay and price planning factors. The pay factor was set for August-July pay rounds rather than financial years. It was announced in the autumn with specific objective of influencing the pay round. As the Chief Secretary to the Treasury, Mr. Biffen, said in November 1979:

> The Government's general intention is to publish the cash limits in time for spending authorities to take account of them in making major decisions affecting their costs in 1980-81, including the costs of pay settlements.[14]

In terms of the framework of analysis put forward in the last section, the strategy was designed to operate at authority level: cash limits and EFLs were set on cash blocks managed by individual authorities. The monetary focus was authorities' financial budgets. In the civil service, budgets for pay and general administrative expenditure were generally in a separate cash block with a separate limit. For most other public service authorities, the limit was on current expenditure more broadly, and for public corporations on overall finance. The quantitative precision of the general pay rule was of a high degree. The cash limits and EFLs were maximum amounts of finance that the Government was prepared to allocate or sanction[15] because the Treasury was not keen on the idea of a range for fear of losing control of expenditure.[16]

Bargaining round	Pay factor	Price factor (for following financial year)	Cost factor	
			Central Govt	Local Auths
1979-80	N.A.	N.A.	14	13
1980-81	6	11	N.A.	N.A.
1981-82	4	9	N.A.	N.A.
1982-83	3.5	N.A.	N.A.	N.A.

Table 4.1: Cost, pay and price factors in the public services 1979-83

Some specific details of the general pay rule over the bargaining rounds 1979-83 are set out in Table 4.1. Both the price and pay assumptions in the public services are given. The factors for public corporations were never made explicit, although inevitably, in the negotiation of EFLs, assumptions had to be made.

Combined pay and price factors were set for the 1979-80 round, with central government having more latitude. In the following two rounds, there were separate pay and price factors, and they were the same throughout the public services. No price factor was made explicit in 1982-83 under the new cash planning system. The inflationary provisions were steadily reduced.

Under this form of pay restraint, pay increases did not have to conform to the pay planning factor. As the Government explained in respect of the 1981-82 round:

> The pay factor does not imply that all public service pay increases will or should be 4%. Some may be less, and some may be more. There is no automatic entitlement to any particular pay increase: each must be justified on its merits. The pay factor is a broad measure of what the Government thinks reasonable and can be afforded as a general allowance for increases in pay.[17]

Nevertheless, the cash limits regime was intended to induce lower pay increases. If the pay factors were exceeded, lower employment and services would result. The theory of the strategy was baldly stated in The Right Approach.

> Every organisation should be put into a position in which workers and management are obliged to face together the inescapable choice between realistic pay levels and job security, or excessive earnings and a doubtful future.[18]

In the public corporations, the EFLs were intended to operate in a comparable fashion. As Mr. Brittan, Chief Secretary to the Treasury, said in 1981:

I think the existence of the EFL can actually help to guide pay negotiations because it does provide a useful discipline, and you can say, if you are running a nationalised industry, to those with whom you are negotiating on pay that if you insist on taking, by use of monopoly labour power, an excessive pay claim, the effect of that will be to prejudice the investment which the long-term future of the industry requires, because there is a limit.19

2.2 Exceptions

Cash limits and EFLs did not cover the whole of the finance of the public sector. They were confined to the elements of finance that were officially defined as public expenditure. Local authority non-grant finance, such as rate income, and the internal finance of nationalised industries, derived mainly from sales revenue, were exempt. Cash-limited expenditure, however, could not be increased through any automatic mechanism: authorities could not rely on supplementary provision above the cash limits.[20] The implication was that central government pay budgets were wholly controlled, while local authority and nationalised industry budgets were only partly controlled.

In special cases the cash limit constraints could be relaxed. The Government's policy was that if the rate of inflation was substantially higher (or lower) than allowed for, it would take stock of the position in the light of all the circumstances of the time.[21] Similarly, in the nationalised industries, the Government realised that the EFLs could not be immutable because revenues and expenditures might differ from assumed levels and cause the borrowing estimate to be exceeded. For instance, an exceptional winter could change the cash flow of an energy industry.[22]

In practice, there were special cases made in the public services in Financial Year (FY) 1979-80 in order to accommodate the increases recommended by the Standing Commission on Pay Comparability (SCPC) and certain other catch-up settlements. However, the adjustment of the cash limits was limited so that substantial offsetting economies had to be found.[23] Otherwise, the special cases were more selective, reflecting the Government's public spending objectives.

2.3 Enforcement

The policy rules were subject to tough enforcement procedures. Monitoring occurred through the Treasury's Financial Information System. Under the Analysis of Public Expenditure (APEX) system operated by the Paymaster General's Office (PGO), accounts were kept of payments made by authorities. This was made possible because most departments authorised payments by notifying the PGO, which then carried out the transaction. Authorities not covered by the convention submitted separate details to the system. Vetting by the Treasury took the form of comparing actual expenditure against profiles of anticipated expenditure. Remedial action involved discussing with authorities their plans for meeting the ceilings, if it appeared that overspending was likely.[24] The sanctions at the disposal of the Treasury were administrative and financial. If cash limits were overspent, and there was no upward revision granted by the Government, the Accounting Officer (normally the Permanent Secretary or the head of an agency) had to explain the causes of the need for an Excess Vote to the Public Accounts Committee.[25] The financial penalty was that the cash limit for the following year was reduced.

Although these procedures were capable of preserving cash limits intact most of the time, the Government supplemented them with exhortation to authorities to live within their allocations.

2.4 Agreement

The public pay policy was not agreed with the CBI or the TUC. It was imposed. To be sure, the Government was prepared to discuss pay: as the Chancellor, Sir Geoffrey Howe, said in 1981:

> The Government may not yet have been open enough but trade unions should recognize the need for open and informed discussion on pay and competitiveness.[26]

However, this was intended to exhort and educate the unions to the Government's way of thinking rather than to bargain over pay factors.

Although there was no explicit agreement, the CBI did support the Government's public sector pay stance. For example, a CBI working party report urged the Government to 'adopt ambitious objectives for monitoring its own employees' pay.'[27] It argued 'that there should be a significant further reduction in the relative position of public service pay.'[28]

2.5 Auxiliary policies

While cash limits were the centerpiece of the Conservative Government's strategy, public sector pay was also affected by a broad range of other policies. Significantly, economic policies were adopted to control finance exempt from cash limits. The Government was anxious to curb public spending including pay, from all sources, including local authority rates and corporation revenue.[29] It therefore passed legislation giving the Environment Secretary powers to reduce grants in cases of perceived local government overspending. Exhortation was common. For example, in announcing the Rate Support Grant in November 1979, the Secretary of State for the Environment, Mr. Heseltine said:

...I wish to appeal to every elected Councillor in the land. You cannot opt out of the battle against inflation. You have responsibilities both to the country as a whole and to your ratepayers. I urge you therefore to plan your budgets on the basis of this settlement, to rate in accordance with the volume of expenditure I have requested and to make prudent use of the balances you hold. Do not raise a penny more in rates than you must.30

The nationalised industries were subjected to an array of policies impinging on their finance and expenditure, including tougher financial targets and performance indicators. Again, exhortation featured too. For example, at the 1980 Conservative Conference the Transport Minister spoke in the following terms:

we share one common interest and that is the best possible value for the public both as passenger and taxpayer... Putting the customer first means that the passenger should not be required to pick up the bill for excessive wage settlements.31

Second, economic policy sought to reform the ownership and structure of public industry through privatisation and the liberalisation of competition The rationale was explicitly in part to resolve problems of pay control. Public ownership was deemed a problem because there was no real fear of bankruptcy. As the Ridley Report put it, where nationalised industries

have the nation by the jugular vein, the only feasible option is to pay up.32

The monopolistic structure of the nationalised sector was criticised because, as Sir Geoffrey Howe stated:

monopoly profits can all too easily be absorbed in the business - sustaining inefficient processes, excess capacity, overmanning, inflated earnings, or cross-subsidising inefficient activities in the face of competition.33 (Emphasis added)

Third, economic policy had the objective of reducing the planned growth of public expenditure, as explained in Chapter 3. The prospective reduction in budgets implied that given pay factors would bite harder: the lack of financial flexibility in the form of real growth money meant that greater employment cuts were likely if pay increased faster than the pay factor. The lower demand for labour, such as in the civil service, also served to threaten to weaken the bargaining power of the unions.[34]

At the same time as operating the cash limits strategy, the Government attempted to influence public sector pay through other cost-control policies. In the public sector itself, it set out to reform pay determination procedures in the areas of comparability and third-party intervention, for example. In the private sector, it sought to control pay, and thus relativity claims by the public sector through the control of the money supply. It was expected that pay rises would de-escalate with the fall in labour demand and the lowering of price expectations.[35] In both sectors, exhortation to lower settlements was seen. For example, Sir Geoffrey Howe said in July 1982 that sanity and realism in pay

> means earnings rising by less than our competitors... It means substantially lower pay rises than last year. It means bearing in mind that price inflation is coming down. It means recognizing that increases in earnings tend to end up considerably higher than settlements... and that settlements tend to end up higher than plans.36

These policies were complemented by the use of labour law reform to reduce union bargaining power. The Government explicitly stated that it intended

> to restore a broad balance of power in the framework for collective bargaining. Reforms to be effected by the Employment Bill, such as those removing specific abuses in picketing and the closed shop, have been designed to that end.37

2.6 <u>Summary</u>

In brief, the cash limits pay restraint strategy was characterised by a general pay rule which fixed limits on financial budgets of authorities, subject to exemptions, mainly rates and product revenue. After 1979-80, special dispensation to exceed the cash limits was relatively rare. The policy was enforced through the Treasury FIS system and exhortation. The pay factors were not agreed with the unions, but the CBI approved of the Government's approach. Additionally, there were a number of auxiliary policies which were aimed at tightening the grip of the Government on finance and expenditure, and at reducing the inflationary potential of bargaining institutions and influences. Thus the strategy had a broad front, addressing not only sources of inflation in the financial context, but also sources in the institutional environment and in bargaining strategies.

3. The Distinctiveness of the Cash Limits Pay Restraint Strategy

Using this characterisation of the Conservative Government's strategy, together with similar types of analyses of previous attempts at restraining public sector pay, the main differences can be isolated. Comparisons are made with all post-war policies where the primary intention was stated to be to reduce wage inflation. The phases of demand management, mainly in the 1950s, which undoubtedly indirectly influenced public sector pay, but which had the major objective of maintaining a level of demand that would not boost price inflation, are excluded.

3.1 General pay rule

The closeness with which the general pay rule defines pay increases can be represented on a single dimension on which the three characteristics of the pay rules isolated earlier are conflated. The unified scale is predicated on the assumption that the individual negotiating team is most constrained by the level at which the rule operates, then by the monetary focus, and least by the quantitative precision of the rule. There may be valid counter-examples, but this is expected to be the usual situation.

Level	Focus	Precision	Policies
Economy	Financial budget	Various	
	Pay bill	Various	
	Average rises	Various	
Authority	Financial budget	Limit	1979-83 Cash limits (CL1-4)
		Range	
	Pay bill	Various	
	Average rises	Various	
Bargaining unit	Pay bill	Various	
	Average rises	Unquantified	1956-57 Price Plateau
			1970-72 (N-1)
		Norm	1962-64 Guiding Light
		Range	1970 Pre-election phase
		Limit	1965-66 Planned Growth of Incomes
			1974-75 Social Contract Mk. I
			1977-78 Phase 3
			1978-79 Phase 4
Employee	Average rise	Conditional	1974 Stage 2
			1973-74 Stage 3
			1975-76 Phase 1
		Fixed	1976-77 Phase 2
		Fixed (freezes)	1948-50 Labour freeze
			1961-62 Pay Pause
			1966-67 Freeze/Standstill
			1968-69 Post-devaluation
			1972-73 Stage 1

Table 4.2: General pay rules in postwar pay restraint strategies

Possible variations in pay rules are listed in Table 4.1. Less constraining policies are at the top of the table, more specific policies at the bottom. Post-war policies appear in the body of the table according to the characterisation of their general pay rules. Whether they were respected is not considered.

The cash limits strategy (CL1-4) is clearly differentiated from previous forms of intervention. The 1979 Conservative Government projected its strategy at the financial budgets of authorities, whereas most policies in previous years had been directed straight at bargaining units at average increases, or at individual employees' pay increases. Thus, during the Price Plateau, the Government intended that pay would only rise if productivity rose in the bargaining unit: the unions were deemed to have no cost-of-living grounds for increases.[38] Under (N-1), negotiators were supposed to de-escalate the settlement levels in their bargaining units.[39] Groups were subject to a 3-3.5 percent norm under the 1962-64 Guiding Light policy.[40] In 1970, prior to the General Election, a range of 2.5-4.5 per cent increases was stated for bargaining units.[41] Relatively commonly, units faced limits on average increases - of 3.5 percent in 1965-66, according to the cost of living during the Social Contract Mk. I, 10 percent under Phase 3, and 5 percent in Phase 4.[42] Pay limits were set by Stages 2 and 3, for negotiating units but individuals were subject to maximum increases.[43] The distribution of increases was fixed by the Phase 1 £6 per week increase policy, and by Phase 2 which allowed individuals 5 per cent rises within the limits of £2.50 and £4 per week.[44] Several other policies froze pay increases, subject to various exceptions.

The difference of approach is ably demonstrated by the bunching of policies in the table. The bulk can be seen as conventional incomes policies, and the new strategy as a 'financial' pay restraint policy, given its focus.

3.2 Exceptions

Exceptions to general pay rules can be summarised in terms of the liberality of exemptions clauses and the attitude towards special cases. Table 4.3 cross-tabulates these two facets of exceptions. Policies are tight if they are in the north-west region of the table, and loose if they appear in the south-east region. The post-war policies, represented by their dates of operation, are allocated to cells. The cash limits policy is allocated by sector, since exceptions varied by sector.

The institutional form of the exceptions was inevitably different under cash limits. Exemptions related to rate and revenue finance that was not capped by cash limits, rather than to pay increases that were eligible under stated criteria. Special cases referred to instances of relaxations of cash limits rather than pay formulae.

Nevertheless, there were certain qualitative similarities with previous policies. In the past, most strategies had begun by allowing only work-related exemptions or work-related and other minor exemptions, with rare special cases; in later stages, major exemptions and special cases became more common. For example, Stages 1 and 2 permitted minor exemptions only, but Stage 3 allowed threshold agreements and special cases, such as for the miners, nurses and teachers.[45] Phases 1 and 2 legitimised work-related exemptions, but Phases 3 and 4 allowed productivity deals as well as special cases for firemen, Review Body groups, and university teachers in 1977-78, and on a wider scale the following year.[46] After a loose year of policy in 1979-

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Special Cases	Exemptions			
	None	Work-Related	Work-Related and Other Minor	Work-Related and Other Major
None	1980-81 (CG) CL2	1956-57 Price Plateau	1948-50 Labour Freeze	1965-66 Planned Growth
	1982-83 (CG) CL4	1966 Freeze	1967 Restraint	1967-68 Moderation
		1975-77 Phases 1 and 2	1972-73 Page 1	1968-69 Post-devaluatio
			1973 Stage 2	1970 Pre-election phase
				1980-83 (LA) CL 2-
Few	1981-82 (CG) CL 3	1970-72 (N-1)	1961-62 Pay Pause	1973-74 Stage 3
			1962-64 Guiding Light	1977-78 Phase 3
				1979-83 (PC) CL 1-
Many	1979-80 (CG) CL 1			1974-75 Social Contract I
				1978-79 Phase 4
				1979-80 (LA) CL 1

Table 4.3: Exceptions in postwar pay restraint strategies

Note: Minor exemptions refer to those with a small financial benefit; major exemptions to those with greater implications for pay, such as productivity deals.

80 when comparability increases promised in Phase 4 were paid, the strategy was tightened, becoming more akin to the early phases of other strategies. Special cases were few. Exemptions were very limited in central government. Steps were taken to restrict exemptions through rates and revenues in local authorities and public corporations as time progressed; however, there was still more flexibility than customary in the early stages. The usual phase of relaxation was not reached during the period under study.

3.3 Enforcement

The enforcement of a policy design consists of a combination of monitoring, and reacting to events on the financial or bargaining scene. These two aspects are represented in Table 4.4. Enforcement is tougher in policies appearing towards the north-west quadrant, and slacker towards the south-east corner. Inevitably the ranking of characteristics involves much judgment and may not be universally appropriate. The most debateable ordering is the ranking of administrative sanctions over legal powers: this is done because there is usually a great reluctance to use the courts in statutory policies, although it could be argued that there is a considerable threat effect.

The cash limits strategy was enforced as strongly as most recent policies that had set explicit pay rules outside a catch-up period. The Labour Government had supported Phases 1 to 4 with the public expenditure system, including cash limits, from when they were introduced in 1976.[47] The NBPI policy had been statutorily supported between 1966 and 1970 to facilitate early warnings of increases, while Stages 1 to 3 from 1972 to 1974 had incorporated legal penalties for flouting the policies.[48] The cash limits policy matched these policies for intensity of enforcement, if not surpassed them, through its use of the Treasury FIS to monitor and react to

Reaction	Monitoring				
	Automatic Notification and Vetting	Independent Discovery and Vetting	Automatic Notification	Independent Discovery	None
Administrative Sanctions	1975-79 Phases 1-4 1979-83 CL1-4				
Legislative Powers	1966-70 NBPI Policies 1972-74 Stages 1-3				
TUC/CBI Exhortation	1965-66 Planned Growth	1961-62 Pay Pause		1948-50 Labour Freeze 1974-75 Social Contract I	1956-57 Price Plateau
Government Exhortation				1962-64 Guiding Light	1970-72 (N-1)

Table 4.4: Enforcement in postwar pay restraint strategies

authorities' spending levels. It was certainly tougher than other policies which relied on exhortation and varying levels of sophisticated monitoring procedures.

3.4 Agreement

The strength of commitment to a policy depends on the extent to which both management and unions agree to it, and whether it is based on normative grounds, that is, in principle, or on calculative grounds in return for economic or political gains. These two aspects are cross-tabulated in Table 4.5. The degree of commitment increases towards the north-west area. The postwar policies have been allocated to pertinent cells. There may be some room for argument over the attributed attitudes of public sector employers: the indicator used here is whether an agreement is explicit, although it is realised that employer attitudes may in fact coincide with government attitudes where the government is the employer, or where they are pressured by government elsewhere in the public sector.

The lack of any explicit agreement between the Government and the parties over pay factors under the cash limits policy mirrors many previous policies. Normative agreement with both parties had not been seen since inflation took off in the late 1960s: agreement, when reached, had been with the employers alone on normative grounds, or had been with the unions in return for economic measures and favourable legislation.

Parties	Basis of Agreement		
	Normative	Benefits	None
Employers and Unions	1948-50 Labour Freeze 1965-68 NBPI Policies		
Unions		1974-75 Social Contract I 1975-77 Phases 1 and 2	
Employers	1968-70 NBPI Policies	1956-57 Price Plateau	
Neither			1961-62 Pay Pause 1962-64 Guiding Light 1970-72 (N-1) 1972-74 Stages 1 & 2 1977-79 Phases 3 & 4 1979-83 CL 1-4

Table 4.5: Agreement in postwar pay restraint strategies

While the cash limits policy had these formal similarities with previous policies, it differed in that there was no attempt to consult with the parties over the policy details. Prior to Stages 1 to 3, lengthy talks with the unions and employers had occurred; although they failed, the form of the policies recognised some points raised, such as the need for a flat-rate element and the need for price control.[49] Phases 3 and 4 had also followed discussions with the TUC and CBI.[50] As shown in Chapter 3, the Government was sensitive to the TUC's views in the revision of Phase 4.

3.5 Summary

The cash limits pay restraint strategy therefore marked a distinct change in the orientation of policies to control public sector pay. Notably, the general pay rule was aimed at authorities' financial budgets rather than pay increases at more micro-levels. Exceptions were generally more extensive in local authorities and public corporations under cash limits than under early stages of conventional incomes policies, but more restricted in central government. The support for the policy design was similar to many policies of the 1970s in that it rested on strong enforcement provisions and an absence of agreement. However, breaking with convention, in the cash limits case there was no attempt to gain consent.

4. The Causes of the New Departure in Pay Restraint Strategy

In particular, two dimensions of the cash limits pay restraint strategy warrant explanation because of the break they represented with the past: the switch to a more laissez-faire approach from direct regulation, and the imposition of the strategy without any attempt to agree it with the parties. The causes lay both in ideological positions and in pragmatic responses to the economic and political effects of the alternative policy options.

4.1 The switch to laissez-faire control from direct regulation

Of fundamental importance to the change of style of general pay rule was the ideology of the freedom of the individual from the fetters of State intervention. It had gained prominence since the late 1960s and had been evident in the policy statements of the Heath Government. For example, in discussing the Party's economic and social approach, Mr. Heath stated:

> Our purpose is to bring our fellow citizens to recognise that they must be responsible for the consequences of their own actions and to learn that no-one will stand between them and the results of their own free choice.51

While it is true that there was a U-turn in economic policy towards the direct control of incomes in 1972-74, it was a pragmatic decision caused by the failure of market policies rather than a philosophical change of heart. The Chancellor of the Exchequer, Mr. Barber, made this clear:

> Restricting the growth of the money supply to the extent that has sometimes been suggested would mean less economic growth, less investment, less modernisation, less industrial activity, far more unemployment, and lower living standards. That is not a price I am prepared to pay. To those who complain that what the Government proposed involves some interference with the free and untrammelled interplay of market forces, I would reply, "Yes, it does". But the purpose of the Government's proposals is to prevent rip-roaring inflation, and that inflation would play far more and worse havoc with market forces than our proposals would... The control of inflation must be an overriding consideration.52

The ideology became dominant among Conservative Party policymakers in the mid-1970s. Notably, it increased in popularity when Mrs. Thatcher replaced Mr. Heath as party leader, and, more gradually, as ministers of a social democratic leaning changed their philosophies in the face of events.[53] This coincided with the gain in stature of the concept of the social market economy, particularly through the writings of Hayek and Sir Keith Joseph and the publications of the Institute for Economic Affairs.[54] According to this ideology, the market, in the right social framework, was held to be the most fair and democratic manner of organising the economy. Self-interest and fellow-feeling were believed to co-exist. Self-interest was disciplined by competition - the prospect of profit and loss - and by checks and balances, such as the government, trade, public awareness, and producers and consumers. Fellow-feeling was promoted by government policies to protect individuals and locales from the worst effects of the operation of the market.

The role of the State in this model was to provide the framework of laws that ensured the market worked effectively, and to provide a safety-net. As far as collective bargaining was concerned, the checks and balances in the market disciplined self-interest, removing the need for government intrusion. This supposedly carried advantages over conventional incomes policy. The politicisation of the economy through incomes policy impinged on the social and political life of individuals: social justice, a fundamental element of freedom, was imperilled by rewards being determined, not by market forces, but by the arbitrariness of bureaucratic rules. The sense of injustice was liable to cause turmoil in society.
The absence of market discipline encouraged conflict to be carried further than it would otherwise have been. Greater government coercion might have resulted.[55]

The concept of the social market economy continued to feature in Conservative Party thought and underlay the approach to pay determination of the Party when in power in 1979-83. As Mr. Nigel Lawson said in 1982, 'Free markets... are... the economic dimension of the wider freedom we cherish for its own sake.'[56] Cash limits, without detailed intervention, were the appropriate technique to control pay in the public sector.

Apart from the ideological persuasion of the Administration, in general Ministers were unconvinced that conventional incomes policy represented an effective alternative. Put simply, they did not think it reduced wage increases. In the context of Phase 4 (1978-79), Mrs. Thatcher asserted:

> It is a policy that suffers from the one defect that in politics is always fatal. It doesn't work. Indeed, it can be deeply damaging, causing strikes and, as we saw at Ford's, settlements higher than would otherwise have been agreed.57

More precisely, incomes policy was believed by most Conservative policymakers to dampen pay in the short term, but at the cost of frustrations caused by standardised limits, and ultimately, a pay explosion.[58] Earlier counter-inflationary success was believed by Mr. Biffen, amongst others, to be independent of incomes policy:

> It was the structures and disciplines of the IMF, and the movement in the monetary aggregate, which had a major impact on incomes.59

Furthermore, incomes policy was deemed to create inefficiencies. Incentives to work were held to be destroyed by the common standards embodied in the general pay rules of incomes policies. Mrs. Thatcher said the Conservative Party

> cannot accept that the objective (of containing the increase in wages within the increase in production) is best achieved by having an absolutely rigid limit of X per cent applying regardless of the several and many different circumstances of industry and commerce, regardless of the conditions on the shop-floor, regardless of the profitability of various concerns. I do not think that we shall get the increase in production and prosperity, which is what we all want, by that method.60

All this is not to imply that a careful study was carried out of the efficiency of alternative policy approaches. Indeed, it was not. A Treasury Deputy Secretary told the Treasury and Civil Service Committee

> As far as incomes policies and simulations of them and that sort of thing are concerned, I really do think those are questions for the Chancellor. It is difficult for us without actually handing in our resignations in advance to get too far into alternative policies.61

Nevertheless, the prejudices and hunches of Ministers, combined with their ideological perspective, led to the rejection of direct regulation in favour of the more indirect approach.

4.2 The preference to impose the strategy

The reluctance to attempt to negotiate with unions or employers over the terms of the cash limits strategy was partly ideological. A corporatist approach would have heightened the politisation of the market, and reduced individual freedom. Naturally, this would have been antithetical to the ideal of the social market economy. Consequently, it was not a viable approach.

More important were the Government's pragmatic arguments. The Conservatives were particularly worried about the economic and political costs of negotiating restraint. The general argument was set out in _The Right Approach_:

> Unions tend to demand and obtain policies in exchange for restraint which either damage the national interest as a whole (such as tight price controls) on which they hope will further their own interests at the expense of the rest of the community. The basic bargain is likely to mean that the Government promises to do things that ought not to be done, in exchange for a promise of wage restraint which is in everybody's interest anyway.62

The potential economic costs were most clearly articulated by the Earl of Gowrie, speaking for the Conservative Government in the House of Lords:

> If the trade-off is expansion of public expenditure, or of public borrowing, or of the money supply - although I put that as least important - then we are agreed that the counter-inflationary effects of pay policy are nil. Worse, they are probably minus, and if they are minus they do not have much choice of holding, of going on, or of obtaining sufficient

> consent... If the trade-off is price controls... then what is the effect on investment and productivity?63

More concretely, specific policies implemented during the currency of the Social Contract had apalled the Conservatives - in particular, subsidies on food and housing, the 1975 Industry Act, and the renegotiation of the terms of EEC entry, which were believed to be economically wasteful and inflationary.[64]

Politically, the worry was that pay agreements would increase union power and threaten Parliamentary democracy. Legislation favourable to unions passed during the Social Contract was believed to have increased militancy.[65] Corporatist agreements per se were seen as prejudicing the authority of Parliament:

> It is not possible to represent and include other interests in the country in this bargaining process. It erodes the authority of moderate union leaders and exposes them to militant pressures. It threatens to undermine and supplement still further the role of Parliament... It is not appropriate for any party which accepts that it is the proper duty of government to represent the community as a whole.66

More improbably it was feared the substance of agreements might imperil the political system:

> If the trade-off is a corporate socialist state, withdrawal from the Common Market, import controls, disarmament, supply - rather than price-rationing and all the rest of the package of the left... then that may not be compatible with Parliamentary democracy or the party system.67

Finally, it was unlikely that the Conservative Government would have been able to introduce an agreed policy even if it had wanted to. As the Earl of Gowrie admitted:

> I am quite prepared to concede... that a formalised pay policy, without of course inflationary trade-offs like price controls or increased Government borrowing, might be the fairest way. But it was not on offer to the last Government and still less is it on offer to this Government.68

5. Summary and Conclusions

The contribution of this chapter has been to show precisely and rigorously the sense in which the Conservative Government's pay restraint strategy in the public sector marked a radical change with past strategies. Critically, the general pay rule did not control in the same detail as previous pay limits, and the policy was imposed without an attempt at agreement. Beyond this, local authorities and public corporations saw more exemptions than in the past due to the technical details of expenditure control, although special case increases were limited. Also enforcement of the strategy was achieved through the administrative framework of expenditure control.

The Conservative Party adopted the relatively laissez-faire approach of cash limits in order to preserve individual freedom and because it was believed that incomes policies were incapable of long-term success from a counter-inflationary and efficiency standpoint. Attempts were not made to agree the cash limits strategy because in so doing the social market economy and democracy would have been threatened, and the economic and political quid pro quos would have been unconscionable. In any case, the unions would probably not have agreed to restrain pay for a Conservative Government.

It was a previously untested approach, and it was inevitably therefore something of a gamble. Doubters believed that it would founder and eventually secede to a more conventional incomes policy.[69] The next part of the investigation analyses how effective it turned out to be.

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PART IV

THE PERFORMANCE OF THE FINANCIAL PAY RESTRAINT STRATEGY

Chapter 5

Public Sector Pay Increases Under The Financial Pay Restraint Strategy 1979-83

The originality of the form of pay restraint adopted in 1979-83 behoves any analysis of the period to scrutinize the impact on pay increases particularly carefully. Accordingly, Part III of this investigation is devoted to a detailed study of the performance of the new strategy. In the present chapter, the efficacy of the strategy is assessed in statistical terms. In the following four chapters, those accomplishments are explained with reference to qualitative and econometric evidence.

The verdict on a pay restraint strategy depends on whether it independently reduces wage inflation. Also, in view of the variety of policy options available, the competency of a policy should be judged relative to that of alternative approaches.

Section 1 of this chapter examines the trends in pay rises during the currency of the strategy. Putting the 1979-83 experience in further perspective, Section 2 compares the extent of pay de-escalation in the era of the cash limits policy with that in previous periods of pay restraint strategy. With this as background, the third section addresses the issue of the role of the financial pay restraint strategy in the determination of pay increases, and measures and compares the policy's effect, in comparison with previous attempts.

1. Pay Increases Under Cash Limits 1979-1983

An examination of the trend of pay increases during the financial pay restraint policy is instructive in that it shows the extent to which the public sector labour market exhibited counter-inflationary tendencies, making a contribution to the Government's campaign against price inflation and public spending growth.

The pay trends are assessed with reference to earnings increases, as well as their primary determinants, namely settlement rates and what is referred to here as the pattern of work, that is, overtime working, shiftwork and incentive scheme participation. Changes in earnings are an important indicator because they directly affect wage inflation and also indirectly through comparability claims (based, for example, on the average earnings index or couched in terms of attaining a particular position in the pay hierarchy). In addition, settlement rates are important in their own right, providing a more reliable guide to the price-inflationary consequences of pay increases, since other determinants of earnings increases, related to the pattern of working, are more (although not totally) related to output changes.

The 1979-83 period is divided into four pay rounds beginning in August and ending in July. The rationale for retaining the notion of an annual pay round, to which some commentators object, is threefold.[1] First, nearly all groups in the public sector settled once every 12 months. Only a limited number of shorter or longer agreements were negotiated, and then generally simply as an interim measure due to economic difficulties or because of a revision of the settlement date. Second, apart from these instances, the order of settlements was maintained. Third, there was a degree of uniformity within the pay round, in that the pay factor was the same, or very nearly so, for all authorities in the public services. Each August saw a new pay factor take effect. Therefore, even if there was more dispersion in pay outcomes than in the immediately previous years, there was an institutional regularity about the <u>process</u> of pay negotiations.

1.1 Earnings increases in the pay rounds 1979-83

Ideally, in order to gain an impression of the trends in wage inflation, a reasonably aggregated analysis is appropriate, supplemented with a broad subsectoral breakdown to identify the primary sources of the observed overall increases. The pay rounds should each be distinguished since they represent periods when distinctive attempts were made to reduce wage inflation.

1.1.1 Data considerations

Unfortunately, no earnings series exists which meets these requirements. The New Earnings Survey (NES) produces public sector results in aggregate and by agreement, but the April survey date comes about mid-way in the pay round, most settlements occurring in January, April and July. As a result, the April-April increases represent the aggregation of parts of two rounds. In contrast, the Average Earnings Index (AEI), being monthly, can be used to assess August-July pay rounds, but the public sector is not clearly distinguished. Figures are only reported for industries in the Standard Industrial Classification (SIC), which makes difficult the identification of certain public corporations in otherwise private industries. Further, the SIC changes in 1980 complicate matters. The other alternative, the Earnings and Hours survey, which is carried out each October, provides a reasonable approximation to the beginning of the pay round, given that few groups settle in August and September.
A difficulty is that the coverage is limited to manual workers. Also, while the series is more disaggregated, making groups more easily identifiable, police and fire employees are excluded and some government industrial workers are classified in private sector SICs.

The approach adopted here is to develop a series based on NES agreement data which is more representative of pay levels at the end of each pay round. The essence of the method is to use settlement information to determine whether the April NES figure includes the current pay round increase; where it does not, then the statistic is revised. In the latter case, if there is only one settlement between successive Aprils, the second April figure is used as the reference point for the pay levels existing at the end of the previous round. If there is more than one settlement between successive Aprils, the settlement data are used to interpolate between the April figures. In both cases, the principle of the revision is to update the initial April rates of pay for overtime, payment-by-results, shift, and 'all other pay' (mainly basic rates and allowances) given normal and overtime hours and proportions of workers earning each type of pay. The effect is to derive average earnings figures which include current round settlements up to July, but on the assumption that the pattern of working (overtime, shifts and payment-by-results) of the previous April persists. Throughout, adult male figures are used to reduce any problems of small samples.

While it is reasonable to be confident in the adjusted NES series, it is wise to cross-check any results with reference to another series. The average earnings index is most appropriate as it has the most similar coverage to the NES and increases can be calculated for individual pay rounds. The main problem is, as cited above, the coverage, and also the fact that late settlements may be counted in the wrong period.

1.1.2 Results

The NES Analysis

The changes in NES-adjusted average gross weekly earnings are summarised in Table 5.1 for each cash-limited pay round between 1979 and 1983, as well as for 1978-79 for the purposes of comparison. Figures are presented for the public sector as a whole as well as major subsectors, calculated as unweighted averages of individual bargaining unit increases in view of the absence of full information on the employee coverage of agreements.

It should be noted that pay increases have been allocated to the round in which they were negotiated rather than the round in which they were implemented. Hence comparability awards paid in 1979-80 but agreed in 1978-79 are classified as 1978-79 increases. Also it should be noted that the number of observations for 1982-83 was less than in the other years with the result that the figures may not be comparable or totally reliable for some subsectors.

It is clear that the era of financial pay restraint saw a general de-escalation of pay rises after the 1978-79 peak in the public services and 1979-80 in public corporations, when catch-up increases had been negotiated in the wake of four years of conventional incomes policy. The downward trend was especially marked in the first two years of the new strategy, (denoted as Cash Limits 1 and 2 or CL1 and CL2), when earnings increases were more than halved for most. The 1981-82 round (CL3) showed a more tentative diminution in increases. The de-escalation resumed in 1982-83 (CL4) more noticeably. Overall, in CL3 and CL4 combined, increases did not quite halve.

Policy	Phase 4	CL1	CL2	CL3	CL4	CL1-4
Year	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
Sector						
Central Government	27.3	18.4	8.0	8.1	2.3	41.4
Civil Service	26.6	21.4	7.5	11.6	NA	45.6+
NHS	28.7	16.0	8.4	6.8	1.7	36.6
Universities	NA	NA	NA	3.7	4.1	NA
Local Authorities	28.7	15.4	8.1	8.0	6.6	43.5
Police and Fire	29.9	17.4	14.4	13.1	11.2	68.7
Other	28.5	15.1	6.9	7.1	5.2	38.6
Public Corporations	19.4	20.7	11.3	9.0	5.5	53.2
Energy and Utilities	22.1	20.6	11.6	11.5	5.1	55.0
Communications	22.2	24.5	8.9	8.9	5.5	55.7
Passenger Transport	16.5	21.7	9.5	5.4	7.2	50.6
Manufacturing	11.0	13.0	16.7	8.7	5.3	50.9
Public Sector: Total	23.8	19.4	9.7	8.5	5.4	49.0
Pay Factors		14/13	6	4	3.5	

Table 5.1: Percentage increases in average gross weekly earnings in the UK public sector 1978-83

Notes: N.A. means not available

\+ means aggregate understates the true figure due to missing observation.

Source: Derived from adjusted NES statistics, Analysis by Agreement, Department of Employment, various issues, 1978-84.

Pay increases, it is clear, fell concurrently with the Government's pay factors for the public services. Without wishing to attribute causation at this stage of the analysis, the correlation between the pay factors and pay increases is at least suggestive that the policy was influential. Of course, as was to be expected from the form of the policy, the earnings increases exceeded pay factors in most cases. This was more pronounced with the intervention of a third-party or reference to a fixed pay formula.

Although there was a general diminution of pay increases over the period, some groups experienced lower rises than others. At a broad sectoral level, public corporations generally received higher increases than did central and local government, especially in 1980-82. At a more disaggregated level, the ranking of groups was far from stable year by year, but certain tendencies were apparent, as revealed in the overall increases for the period. The police and fire groups advanced the most, with increases of two-thirds, followed by a large bunch, including the public corporations and the civil service, which received rises of approximately a half; the NHS (especially nurses), and other local authority groups fared least well, with increases of only just over a third. Even after accounting for the catch-up rises negotiated in CL1, public corporations fared better.

It is worth pointing out that public corporations and civil service typically saw more internal variation in pay increases than the NHS and local authorities. Indeed, the manual workers in the gas and water industries, together with non-manual employees in the coal industry received increases of the order of the police and firemen. In the other direction, non-manual steel employees suffered more than the sectoral average indicator, in fact overlapping with the teachers who headed the local authority pack.

The AEI Analysis

An analysis using the average earnings index yields similar conclusions, which is comforting given the unorthodox method of adjusting the NES data. Table 5.2 reports the earnings increases in each pay round for various SICs. Note that here the figures relate to rises implemented in the August-July periods rather than increases negotiated in the round. Adjustments would be difficult to make in view of the level of aggregation and the absence of accurate information on the relative sizes of all bargaining units. Hence, the payment of SCPC awards in CL1, the year after many references were made, inflated the CL1 figures. Also the CL3 Public Administration increase included the late CL2 settlement in the civil service which followed industrial action. The CL2 increases in Education and Health Services were also boosted by awards by the Standing Commission on Pay Comparability (SCPC), following references in the previous round. Even so, a downward trend in pay increases is evident, especially in CL2 and CL4.

Policy	CL1	CL2	CL3	CL4	CL1-4
Year	1979-80	1980-81	1981-82	1982-83	1979-83
Sector					
Public Services					
Public Admin.	23.1	8.3	11.5	7.3	59.5
Education and Health Services	13.9	18.8	12.6	4.7	59.5
Public Corporations					
Coal and Coke	23.5	10.1	8.7	4.9	54.9
Electricity, Gas, Other Energy and Water	36.6	15.6	9.9	6.7	85.3
Transport and Communications	16.0	13.1	12.2	9.7	61.4
Other Transport Equipment (incl. ship-building)	20.7	11.6	8.5	3.0	50.5

Table 5.2: Percentage increases in average earnings in the UK public sector 1979-83

Note: Phase 4 figures are omitted due to differences in SIC definitions, and the inclusion of SCPC awards in the CL1 figures.

Source: Derived from the Average Earnings Index, *Department of Employment Gazette*, various issues, 1979-83.

In fact, if corrections were possible, it is reasonable to suppose that CL1 would have seen some of the reduction in earnings increases, too. In this event, the broad NES picture would be confirmed.

With the caveat concerning the timing of SCPC awards firmly in mind, the relative extent to which groups gained smaller increases under cash limits can be seen. In the absence of data on police and fire increases, the public utilities fared best. Transport and communications pay increases followed with the SCPC-inflated rises of the public services. Coalmining and shipbuilding apparently received the smallest increases. If the SCPC rises could be netted out where they were in truth part of Phase 4 settlements, a similar hierarchy to that identified in the NES would be seen.

1.2 Settlement rates and changes in working patterns in the pay rounds 1979-83.

Having established that earnings increases diminished during the cash limits pay restraint strategy, and occurred more in some sectors than others, it is appropriate to account for the trends through a statistical decomposition of the increases. In addition, as intimated earlier, it is useful to distinguish settlement rates because they have direct implications for unit labour costs and thus inflation, in contrast to changes in working patterns which are more often associated with output changes and are therefore less inflationary.

1.2.1 Data and method

The only data source to disaggregate pay into its various elements is the NES. The settlement and working pattern effects are calculated from the adjusted pay rates derived in Section 1.1 and the NES data on hours of work and the proportions of employees working overtime and shifts and participating in incentive schemes. The procedure is to assess the monetary increase that results from the change in each rate and each hours and incidence figure, one-by-one, holding everything else constant. The percentage increase over initial average earnings can then be calculated.

1.2.2 Results

Settlement rates

The increases in average earnings due to the combined increases in the rates for 'all other pay', overtime, shift and incentive pay - that is, excluding any changes in overtime hours and the proportions of employees working overtime, shifts and under incentive schemes - are shown in Table 5.3. It can be seen that the earnings increases largely reflected settlement rates, being of broadly similar magnitudes. However, the trend in settlements was more unequivocally downward each round in the 1979-83 period than was the trend in earnings increases. In aggregate, in CL1 and CL2 the reductions in settlement rates were 4.7 and 7.7 points respectively, halving the settlement rate of Phase 4. Further decreases followed in CL3 and CL4, halving the settlement rate once more. The implications for reductions in price inflation were therefore more consistently cheerful than the earnings trends were for wage inflation.

Thus, apparently, bargaining behaviour in annual negotiations continually changed. The hesitancy in the downward path of total earnings increases must therefore have been due to changes in the pattern of work. Settlements shadowed the cash limits pay factors. Apart from where third parties' pay links were involved, public service increases tended to exceed the pay factors by up to four percentage points.

Policy	Phase 4	CL1	CL2	CL3	CL4	CL1-4
Year	1978-79	1979-80	1980-81	1981-82	1982-83	1979-83
Sector						
Central Government	26.5	17.0	9.1	6.9	4.4	40.8
Civil Service	23.8	21.2	8.8	9.0	N.A.	43.87
NHS	31.8	13.6	9.3	6.6	4.3	38.1
Universities	26.5	N.A.	N.A.	3.1	4.6	N.A.
Local Authorities	29.9	16.1	10.1	8.4	6.8	48.0
Police and Fire	38.5	17.3	18.8	12.2	10.3	72.4
Other	28.2	15.9	8.5	7.7	5.9	43.3
Public Corporations	19.4	22.1	13.6	9.7	6.0	61.2
Energy and Utilities	21.5	21.8	14.0	10.9	6.4	63.7
Communications	23.6	24.5	11.5	8.8	5.9	59.8
Passenger Transport	15.8	23.3	12.8	10.2	8.4	66.1
Manufacturing	11.8	17.1	15.9	5.6	2.1	46.3
Public Sector: Total	24.1	19.4	11.7	8.7	5.9	52.9

Table 5.3: Percentage settlement rates in the UK public sector 1978-83

Notes: As for Table 5.1

Source: As for Table 5.1

At a disaggregated level, the hierarchy of increases was in general the same as for total earnings increases: police and fire employees gained the most over the cash limits policy period, followed by, in order, the public corporations, the civil service, local government and the NHS. There were more detailed differences, however. Settlement increases were mostly higher than earnings increases, but especially in certain corporations and local authorities where supplements to basic rates were a greater proportion of pay. As a result, manual workers in the utilities and road passenger transport fared particularly well in negotiations (although not as well as police and fire employees), followed by the miners and non-manual utility workers; meantime, post office (so-called) manipulative grades received less than average, along with local authority groups, while British Steel (BSC) non-manual workers saw their pay increase as little as for NHS workers.

Most of the settlement rates represented increases in basic weekly rates or in overtime, shift and incentive rates, but reductions in normal hours of work also contributed, especially in CL3 and CL4. Before the cash limits policy era, the post office engineers had been awarded a reduction in hours from 40 to 37.5. The SCPC reduced the hours of nurses and professional and technical workers (supplementary to medicine) in CL1. Negotiated hours reductions occurred in the public sector first under the policy in 1980-81 when gas and water manual workers and university ancillary workers cut their hours. CL3 then saw the avalanche of reductions. A large number of groups in the public corporations were the beneficiaries, including units in electricity supply, transport (including British Rail (BRB), London Transport (LTE), the National Council for the Omnibus Industry (NCOI), the British Transport Docks Board (BTDB) and the British Waterways Board (BWB)), and also in British Shipbuilders (BS). In the public services, the Atomic Energy Authority (AEA) and NHS electricians and plumbers benefitted. The following year, CL4, more corporations followed suit, such as municipal road transport, the BBC and BSC, together with BRB footplatemen, but it was mainly public service groups who shortened their workweek, including various manual groups and town hall workers in the local authorities, the industrial civil service, university technicians and NHS maintenance craftsmen.

Changes in work patterns

Changes in overtime hours and the proportions of employees working overtime, shifts and under incentive schemes, served on the whole to dampen earnings increases and therefore to reduce wage inflation. Yet the overall average magnitude of the implications of work pattern changes should not be exaggerated, since the public sector was characterised by a high ratio of basic pay to total pay, and so large changes in non-basic elements did not have a great impact on average earnings. Nevertheless, changes in work patterns did carry significant implications for certain groups at particular times.

Overtime hours and coverage

The restraint on earnings caused by changes in work patterns emanated primarily from overtime work, for the most part, largely because of the relative importance of overtime pay in supplementary pay. Table 5.4 depicts the impact of changes in overtime hours and employment on average earnings in each pay policy period.

Whereas Phase 4 had seen increases in overtime hours and employment, the cash limits era generally saw reductions. Some cuts were seen in CL1,

Policy	Phase 4	CL1	CL2	CL3	CL4	CL1-4	Phase 4	CL1	CL2	CL3	CL4	Cl
Year	1978-79	79-80	80-81	81-82	82-83	79-83	1978-79	79-80	80-31	81-82	82-83	79-
Sector												
Central Govt.	0.2	-0.5	-0.4	0.5	-0.8	-1.1	0.1	0.4	-0.9	0.2	-0.3	-0.6
Civil Service	0.2	0.0	-0.2	1.0	N.A.	0.9+	0.1	0.1	-1.0	0.9	N.A.	0.0
NHS	0.1	-0.9	-0.6	0.3	-1.0	-2.2	0.1	0.6	- .9	-0.4	-0.4	-1.0
Univ.	N.A.	N.A.	N.A.	0.0	0.0	0.0+	N.A.	N.A.	N.A.	0.0	0.0	0.0+
Local Auth.	0.6	-0.3	-1.0	0.0	-0.3	-1.5	0.1	-0.4	-0.9	0.1	-0.3	-1.5
Police and Fire	-0.2	0.7	-2.5	0.4	0.3	-1.1	-0.6	-0.4	-1.3	0.3	0.1	-1.2
Other	0.8	-0.5	-0.7	-0.1	-0.4	-1.6	0.3	-0.4	-0.8	0.0	-0.4	-1.6
Public Corps.	0.3	-0.3	-1.2	-0.2	-0.6	-2.2	0.5	-0.9	-1.2	0.0	-0.5	-2.5
Energy & Util.	0.7	-0.6	-0.6	0.0	-0.4	-1.5	0.1	-0.4	-0.6	0.4	-0.6	-1.3
Comm.	1.0	0.3	-2.3	0.4	-0.6	-2.2	0.5	-0.9	-1.2	-0.8	-0.3	-3.2
Pass. Trans.	-0.6	-0.3	-1.4	-1.2	-2.1	-4.9	1.0	-0.4	-1.9	-1.1	0.5	-3.0
Mfg.	-0.3	-0.2	-1.6	0.7	0.3	-0.8	0.6	-3.0	-1.1	2.2	-1.1	-3.0
Public Sector: Total	0.4	-0.3	-1.0	0.0	-0.5	-1.8	0.3	-0.5	-1.0	0.1	-0.4	-1.8

Table 5.4: Percentage changes in earnings due to changes in overtime hours and employee coverage in the UK public sector 1978-83

Notes: As for Table 5.1

Source: As for Table 5.1

amounting to more than 5 per cent of earnings for workers in municipal road transport, BSC and Scottish local authorities. They reached a crescendo in CL2 with significant reductions occurring in BS, tne police service, and BRB workshops, and among manual Post Office (PO) engineers and manipulative grades, and local authority engineering craftsmen and electricians. The situation stabilised in CL3, although BS and the industrial civil service gained ground through overtime, and BRB workshop employees suffered further. In CL4, the overtime cuts resumed on a moderate scale, especially among BSC manual workers.

Over the period as a whole, the public corporations were particularly hard hit, although the local authorities and the NHS also saw overtime fall. The trend was most significant among manual workers, whose pay was more dependent on overtime than was that of non-manuals. Individual groups experiencing the most significant cuts in pay were the BRB workshop employees (over 15 percent) and municipal road transport workers (10 percent). Other transport workers, including NCOI employees and BRB conciliation grades, also saw sizeable reductions. Post office workers, Scottish local authority manual workers, and engineering craftsmen and electricians, steelworkers, NHS maintenance workers and British Gas (BGC) manual workers all saw aggregate reductions of 7 per cent or more.

Incentive scheme coverage

A rising proportion of employees under incentive schemes led to increases in incentive pay which added slightly to overall pay increases, but which did not significantly prejudice wage inflation. Table 5.5 shows that over the period only 1.2 per cent was added to earnings increases by incentives.

Policy	Phase 4	CL1	CL2	CL3	CL4	CL1-4
Year	1978-79	1979-80	1980-81	1981-82	1982-83	1979-83
Sector						
Central Govt.	1.2	0.8	0.2	0.1	-0.1	1.0
Civil Service	1.6	0.2	0.1	0.0	N.A.	0.3+
NMS	0.3	1.4	0.3	0.1	-0.1	1.7
Universities	N.A.	N.A.	N.A.	0.0	0.0	0.0+
Local Authorities	-0.1	-0.2	0.2	-0.3	0.5	0.2
Police and Fire	-0.1	0.0	0.0	0.0	0.0	0.0
Other	-0.1	-0.2	0.2	-0.3	0.6	0.3
Public Corporations	-0.1	0.6	0.8	0.2	0.2	1.8
Energy and Utilities	-0.1	0.2	0.4	0.3	-0.1	0.7
Communications	0.0	2.4	1.7	0.6	0.0	4.8
Passenger Transport	0.1	0.1	0.0	0.0	0.4	0.6
Manufacturing	-1.24	-0.2	3.3	-0.4	1.7	4.5
Public Sector: Total	0.1	0.4	0.5	0.0	0.3	1.2

Table 5.5: Percentage changes in earnings due to changes in the employee coverage of incentive schemes in the UK public sector 1978-83

Notes: As for Table 5.1

Sources: As for Table 5.1

Most of the increases in incentives came in the first two years of the policy. Typically, new schemes were implemented at that time. In later years, old bonuses were consolidated and new ones were offered under existing schemes. For example, the PO introduced a twice-yearly bonus from July 1979, based on corporate results and amounting to 2 to 3 per cent each year. From CL2, BSC required pay increases to come from locally identified and negotiated performance improvements. NHS maintenance workers also participated in the National Financial Incentive Scheme in greater numbers, adding significantly to the group's pay increase. Likewise, more non-manual NCB employees became eligible for incentives, and more industrial civil servants were paid under the Special Efficiency Bonus Scheme.[2]

Over the whole period, in addition to the above-mentioned groups, Scottish local authority manual workers, local authority engineering craftsmen and electricians in England and Wales, manual gas workers, and municipal transport workers all experienced above-average incentive pay rises due to changes in the proportions of employees eligible.

A few bargaining units saw reductions in pay from this source where workers were taken off incentive schemes. Usually this was temporary, yet over the four years of cash limits policy, local authority building and civil engineering workers, BS, and non-manual BGC employees made a net loss of up to 2-1/2 per cent of earnings.

Shift coverage

Changes in the proportion of workers on shifts also added to earnings, but as Table 5.6 shows, the extent was almost imperceptible until CL4. Although increased shiftworking is associated with a change in the time at which work is done rather than greater output, price inflation was not endangered between 1979 and 1983 due to the trivial amounts involved.

Some individual bargaining units, however, saw small but significant changes in pay due to changes in shiftwork coverage. In CL1, the cutback in shiftworking in BSC reduced pay rises by 1 to 2 per cent on average, while BGC manual workers and electricity supply (ESI) technical workers experienced pay increases of 1 per cent. More widespread reductions in shift pay, amounting to approximately 1 per cent of earnings, were seen by ESI manual and technical workers, water industry manual employees and municipal transport workers in CL2. At the same time, equivalent amounts were gained by BRB workshop employees, NCOI workers, BSC, and NHS nurses and ancillaries. Significant reductions in shiftworking did not materialise thereafter, apart from the case of ESI manual workers in CL4. Instead, increases of around 1 per cent were seen: in CL3 by the ESI manual workers themselves and the industrial civil service, and in CL4 by BSC, municipal transport, the fire service, and NHS administrative and clerical staff.

Over the whole of the first Conservative period of office, few groups gained or lost significantly. BSC manual workers lost, but BSC non-manual workers gained, as did manual gas employees and NHS white-collar staff and nurses, all by between 1 and 2 per cent.

Policy	Phase 4	CL1	CL2	CL3	CL4	CL1-4
Year	1978-79	1979-80	1980-81	1981-82	1982-83	1979-83
Sector						
Central Government	0.1	-0.1	0.2	0.2	0.3	0.7
Civil Service	0.2	-0.2	-0.2	0.5	N.A.	0.2*
NHS	0.0	0.1	0.5	0.1	0.4	1.0
Universities	N.A.	N.A.	N.A.	0.0	0.1	0.1*
Local Authorities	-0.1	0.0	0.0	0.0	0.3	0.4
Police and Fire	-0.1	0.1	0.1	-0.1	0.5	0.5
Other	-0.1	0.0	0.0	0.1	0.2	0.3
Public Corporations	-0.2	0.0	0.0	0.1	0.4	0.5
Energy and Utilities	-0.4	0.3	-0.4	0.2	-0.1	0.1
Communications	0.0	0.0	0.1	0.0	0.1	0.2
Passenger Transport	-0.1	0.0	0.2	-0.1	0.7	0.8
Manufacturing	-0.1	-1.0	0.7	-0.1	2.5	2.1
Public Sector: Total	-0.1	0.0	0.1	0.1	0.3	0.5

Table 5.6: Percentage change in earnings due to changes in the employee coverage of shiftworking in the UK public sector 1978-83

Notes: As for Table 5.1

Sources: As for Table 5.1

1.3 Summary

This section has attempted to establish the broad trends in public sector pay determination under the cash limits pay restraint policy, as well as to provide a measure of detail to illustrate the general remarks. Three salient features characterised the period.

First, the policy was accompanied by a de-escalation of pay increases in terms of earnings, but more clearly in terms of settlement rates. While the increases were up to 4 per cent greater than the pay factor at the subsectoral level, a diminution of wage inflation was implied, by the trend.

Second, public corporations tended to negotiate greater increases than central and local government, although the dispersion of settlements meant that there was a degree of overlap. Emergency services, manual workers in the utilities and in road passenger transport obtained the best settlements. Next were the miners and the non-manual utility employees. Below civil servants and the other corporation employees, (except PO manuals and BSC non-manuals who fared less well), were other local government workers and NHS employees.

Third, the de-escalation in earnings largely reflected the trend in settlements, but pay increases tended to be moderated as well by changes in the pattern of work, especially cutbacks in overtime hours and coverage. This was particularly true in 1980-81 (CL2) and for manual workers. As a result, the low rank of local authority and NHS manual workers was consolidated, while the relatively high settlements of road passenger transport workers were tempered somewhat.

2. The Cash Limits Pay Policy Experience in Historical Perspective

To gauge the significance of the counter-inflationary trends in pay bargaining under the cash limits pay restraint strategy, it is useful to contrast them with the movements in pay under previous strategies.

2.1 Guiding principles

The pay bargaining experience during each series of policies is encapsulated by three types of statistics: the average de-escalation, the maximum annual de-escalation, and the maximum continuous de-escalation. The first, the average de-escalation, refers to the average annual pay increase during the operation of a strategy compared with that in the preceding strategy. This measures the overall changes under the policy, capturing both the extent and duration of lower pay increases. This has been employed in certain previous analyses to demonstrate the success of wage controls.[3] Here, however, it is simply a descriptive device to show how bargaining changed, with no implications for policy effectiveness, in view of the fact that other variables have to be controlled before verdict can be passed on the independent effect of policy.

The second criterion, the maximum annual de-escalation, indicates the greatest change in bargaining behaviour between one year and the next during a strategy, or, as sometimes put, the greatest extent to which expectations were broken. It is simply calculated as the largest year-on-year percentage decline in earnings during each strategy. According to McCarthy, a halving of pay increases is probably the most that managers of the economy can hope for.[4]

The third statistic, the maximum continuous de-escalation, measures the greatest continuous fall in pay increases over successive years of decline during the currency of a strategy. It therefore assesses the extent to which bargaining behaviour underwent a sustained change.

2.2 Data and method

In pursuit of this objective, two data sets are utilised. One is the October Earnings and Hours Survey of manual workers' earnings. This series has the advantage that historical comparisons can be made back into the 1950s. Also October is a month very close to what has been, at least since 1974, the effective start of the pay round. A public sector series is generated by weighting the public sector industry pay figures by the employment levels pertaining in 1979. A similar series has been calculated elsewhere, but it covered a shorter period and omitted air transport.[5] The series used here overcomes those shortcomings. Where there were no data for certain early years for London Transport (LTE), BRB, the NHS and air transport, it was assumed that increases were the same as in comparable industries. When the SIC codes changed, the data were spliced as sensitively as possible to make them compatible with the 1968 SIC.

The broader NES is used as a cross-check since the October inquiry suffers from a focus on manual workers and miscategorises certain public service employees, as mentioned earlier. The raw April figures are used in the absence of the settlement details required to correct them to a July basis. Of course, the NES is not perfect given its April timing and short life, but nevertheless it affords a rough-and-ready, secondary, basis for comparisons of recent policy episodes. As before, adult male earnings are used in order to exclude the effects of movements towards equal pay for women which were exempted from policies in the first half of the 1970s, and to capture the underlying rates of increase negotiated under the policies.

These data are used in preference to the average earnings index because, prior to 1976, public administration and education and health workers were excluded from its coverage. The wage rates index is not adopted due to its exclusion of non-manual workers and its focus on wage entitlements or minima, rather than earnings.

Given these data, the procedure adopted is to attempt to isolate policy-on and policy-off periods as best can be done. Due to the timing of the series this is not always as precise as would be desirable. For example, Stage 3 began to collapse in the Spring of 1974, but the choice of the policy-off period when using October data is October 1973 to 1975, covering the whole of Stage 3 and the Social Contract Mk. I. It should also be noted that since the series record increases at the point of actual implementation rather than the date from which the increases were effective, periods that might be supposed to be policy-on phases are sometimes more properly categorised as policy-off because they contain late catch-up increases: CL1 is a good example. Having grouped the policy phases into broad strategies, the three statistics are calculated for each strategy. The changes in pay increases during the strategies on all three dimensions appear in Tables 5.7 and 5.8.

2.3 Results

Gratifyingly for policymakers and administrators, the overall change under every policy-on strategy except the Guiding Light phase in 1962-64 was downward on average, according to the October manual workers survey. The de-escalation under the cash limits strategy was relatively large. As the first column of figures shows, earnings increases were only a third of the previous policy-off phase on average. Only Phases 1 to 4 of 1975-79 and the 1961-62 Pay Pause saw remotely similar de-escalations.

Policy On/Off	Policy	October Dates Used	% De-escalations Average	Maximum Annual	Maximum Continuous
Off	-	1950-55	N.A.	N.A.	N.A.
On	Price Freeze	1955-56	-25.8	-25.8	-25.8
Off	-	1956-61	-21.4	-48.8	-73.1
On	Pay Pause	1961-62	-42.7	-55.5	-55.5
On	Guiding Light	1962-64	+110.8	+ 3.7	+ 3.7
On	NBPI Policy	1964-69	- 4.0	-43.2	-43.2
Off	-	1969-70	+115.5	+115.5	+115.5
On	(N-1)	1970-72	- 0.8	- 15.5	- 15.5
On	Stages 1 to 2	1972-73	- 3.0	+ 13.0	+ 13.0
Off	Stage 3 and Soc. Con. Mk. I	1973-75	+108.5	+ 3.4	+ 3.4
On	Phases 1 to 4	1975-79	- 48.4	- 57.3	- 71.2
Off	CL1	1979-80	+ 56.4	+ 56.4	+ 56.4
On	CL2 to 4	1980-83	- 63.7	- 56.3	- 73.7

Table 5.7: Changes in earnings increases of public sector manual workers under pay restraint strategies 1950-83

Note: Negative numbers denote de-escalations of earnings increases.

Source: Derived as explained in the text from adjusted October Earnings and Hours Enquiry, Employment Gazette, Dept. of Employment, HMSO, various issues.

Policy On/Off	Policy	April Dates Used	Average	% De-escalations Maximum Annual	Maximum Continuous
On	(N-1)	1970-72	N.A.	+15.1	+15.1
On	Stages 1 to 3	1972-74	+10.2	-10.1	-10.1
Off	Social Contract Mk 1	1974-75	+123.0	+112.3	+112.3
On	Phases 1 to 4	1975-79	-56.7	-60.4	-77.1
Off	CL1	1979-80	+78.6	+78.6	+78.6
On	CL2 to 4	1980-83	-54.2	-44.3	-68.3

Table 5.8: Changes in earnings increases of adult male manual and non-manual public sector workers under pay restraint strategies 1970-83

Note: Negative numbers denote de-escalations of earnings increases.

Source: Derived from New Earnings Survey, Dept. of Employment, HMSO, various issues.

While the precise figures are more unreliable due to the mismatch of the timing of surveys and policies, the NES results convey the message that the reduction in pay during the cash limits strategy was approximately as great as in Phases 1 to 4. Since some SCPC awards were paid in CL2, the cash limits era probably saw greater reductions, as the October data indicate.

The financial pay restraint strategy also appears to have been in force during one of the most significant single-year reductions in wage inflation. According to the October figures, earnings increases were slightly more than halved during the CL2 policy. This was of the same order as Phase 1 (1975-76) and the Pay Pause, and slightly greater than in the late 1950s and in 1965-66 during the NBPI strategy. The NES figures actually rate the changes under the Labour Government's incomes policy as more significant than under cash limits, but, as mentioned above, the NES understates the diminution in CL2. In any case, both strategies saw creditable reductions in pay inflation by McCarthy's criterion.

Powerful sustained changes in bargaining behaviour were also experienced under the cash limits strategy, involving a fall in increases of nearly three-quarters over successive years. Only Phases 1 to 4 and the late 1950s saw comparable changes: the October series shows almost exactly the same reductions in earnings increases, while the NES, understating the cash limits changes, shows the Labour Government's strategy saw a slightly greater reduction. Interestingly, prior to Phases 1 to 4, no active policy was accompanied by a sustained dampening of pay increases beyond one year. Further NES calculations showed that, at a sectoral level, public services saw de-escalation in terms of all three criteria that was as strong as under Phases 1 to 4, but that the public corporations exhibited smaller reductions than previously. However, as in Section

1.1.2, this may just reflect the spreading out of the public corporation catch-up increases over both Phase 4 and CL1.

In sum, the cash limits strategy appears to have accompanied one of the most significant de-escalations of pay increases in the public sector since the Second World War in overall, single-year, and sustained terms. Only the Labour Government's strategy in the late 1970s consistently rivalled it on each dimension. Whether the financial pay restraint strategy was actually a significant cause of the de-escalation cannot be determined from the data presented here: this question is the concern of the next section.

3. The Counter-Inflationary Effect of the Financial Pay Restraint Strategy

As the theoretical framework in Chapter 2 makes plain, pay increases are determined by a variety of influences. Pay restraint policy is but one factor. It may be, therefore, that the de-escalation identified under the cash limits strategy was caused by the background economic, political and institutional conditions rather than cash limit pay factors. Consequently, this section seeks to assess the independent significance of the cash limits pay restraint strategy, holding other causal variables constant, insofar as the data and techniques allow.

The assessment of the impact of pay restraint strategies on public sector pay is relatively uncharted territory. While many studies have compared movements in wages with counterfactuals, (that is, what would otherwise have occurred in the absence of pay restraint policy), they have tended to be at the level of the economy in aggregate, the private sector or manufacturing industry. Only Elliott and Fallick have specifically considered the public sector, but they did not cover the late 1970s or the early 1980s.[6] In view of this, it is necessary to carry out a further investigation.

3.1 The general approach

Qualitative and quantitative investigations are possible. The qualitative approach involves estimating the counterfactual in a very general way on the basis of impressions of salient factors. For example, Blackaby has used this technique, contrasting pay increases in the NBPI period of incomes policy with the potential increases resulting from increases in direct taxation and the effects of devaluation, while Stage 1 and 2 rises (1972-73) were set against the implications for bargaining of output growth, falling unemployment, and rising import prices.[7]

The quantitative approach involves econometric estimations of the deviations from what would otherwise have happened in the wage bargaining area. Two alternative methods can be used. First, the 'policy-off' approach involves the estimation of a policy-off wage equation from time series observations of wage increases and appropriate independent variables when pay restraint is not in force. The equation is then used to estimate the increases that would have been expected in each policy-on period had a policy not been in force. Subtracting the estimated figure from that observed produces the effect of policy in the period. For example, Jefferson et. al., used this method to examine the effectiveness of UK postwar incomes policy up to 1967, as did Perry for the U.S.[8]

An embellishment of this approach is to estimate an additional and separate policy-on equation, and to use an F-test to compare the intercepts and slope coefficients in the two equations in order to judge whether there are significant differences. For example, Lipsey and Parkin investigated whether incomes policy altered the coefficients and intercept of the U.K. wage equation over the period 1948-67, as did Thomas and Stoney for 1950-66, and Taylor for 1955-67.[9]

The second alternative method is the dummy variable approach. A wage equation is specified for the whole period including, as independent variables, the usual collective bargaining variables, supplemented with dummy variables for each policy. The dummies can be simple intercept dummies which are assumed to shift pay by the same amount at all combinations of the other independent variables: in other words, it is assumed that there is a parallel shift in the wage equation. The postwar studies of Bodkin et. al., Brechling, the NBPI, Smith, as well as Elliott and Fallick used such dummies.[10] More sophisticated dummies can be included. Slope dummies allow for shifts in the relationship between independent variables and pay increases during a policy. The economy-level work of Godfrey and Burrows and Hitris have taken this tack.[11] Also dummies of different intensities can be included to capture whether policies are 'hard' or 'soft'.[12] Whatever the type of dummies included, if the associated coefficients are negative, then the policies have been effective. The magnitude of the coefficients indicate the degree of effectiveness.

This investigation employs dummy variables on the grounds that the other methods are relatively more problematic. The impressionistic technique is not sufficiently rigorous. There is a danger that the judgment of the otherwise existing wage inflation rates would rely on ad hoc factors and imprecise estimations of their relative weight.

The quantitative approach, in comparison, is more rigorous. Yet the 'policy-off' approach has major flaws, at least in the context of UK public sector pay determination. Very few policy-off years have occurred since 1961. Thus a policy-off wage equation would be based mainly on the behavioural parameters of the 1950s. It is questionable whether the derived estimates of what would otherwise have happened in later decades would be realistic. It has been argued, for example, that there was a structural shift in behaviour in the mid-1950s due to rising expectations and changes in bargaining institutions, and that wage equations should take account of this. Labour market institutions have also changed in many ways that might have impinged on wage behaviour: for instance, redundancy payments have increased, legal safeguards over employment have been improved, and the fixed costs of employment have risen, all weakening the propensity of the employer to fire workers. Furthermore, policy-off periods may not be independent of incomes policy effects, for catch-up increases may be paid, further biasing any policy-off estimates.

Nor is the dual equation approach without problems. Apart from excluding some catch-up increases, the policy-on equation effectively generalises about behaviour under all policies, hard and soft. This tends to reduce the significance of the effect of policy. It is more informative to use a method that distinguishes the impact of each strategy.

In comparison, the dummy variable method is advantageous because it does not rely on such an unreliable policy-off equation; behaviour may have changed in the postwar period, but at least the estimation of the wage equation attempts to generalise for the period as a whole rather than a distant, historical, phase of it. In addition, the use of multiple intercept dummies permits the isolation of the effect of each individual policy, rather than the general impact assessed by contrasting policy-on and policy-off equations. Regretably, however, the number of observations in the time series data set precludes using slope and catch-up dummies as well.

Of course, the econometric approach advocated here is not perfect. As Robinson and Mayhew point out, first, dummy variables are blunt instruments for capturing complex and adaptive interactions between political and economic forces.[13] While this is true, the objective is simply to gain an impression of the significance of the counter-inflationary effect of the cash limits strategy. The complexities behind the statistics are to be analysed in the following chapters. A second criticism put forward is the uncertainty regarding the correct form of the wage equation. To this may be added the problems of operationalising it. This is acknowledged. All that is claimed is that it is the best that can be done given the theoretical framework, the data that are available, and econometric techniques.

3.2 The specification of the wage equation and the data used

Ideally, a number of different wage equations should be specified in order to provide the fullest possible picture of the counter-inflationary effect of the cash limits strategy. In particular, equations should be specified at an aggregate public sector level and also at subsectoral levels, in case the results vary by sector. The independent variables should be drawn from the theoretical framework outlined in Chapter 2, operationalised with the appropriate lag structures.

3.2.1 The dependent variable

In order to generate a wage equation with statistically significant independent variables, a long period of continuous data covering the public sector is required. This leads to the use of the Earnings and Hours series once more. April and October data are available up to 1970 and NES figures are used to interpolate between the annual October surveys from

1970 onwards. The detailed MLH data facilitate aggregate public sector and subsectoral analyses. In contrast, the NES, independently, is too short, while the pre-1976 average earnings index excludes much of the public sector. The basic wage rates index is longer but it distinguishes only broad SICs which are difficult to aggregate into a public sector index. The minor shortcomings of using the Earnings and Hours Survey relate to its coverage. As indicated earlier in this chapter, it focuses on manual workers; police and fire employees are excluded from the survey; and certain public service industrial employees, and a few public corporations, are inextricably included in private sector SICs.

The specification of the dependent variable is determined by the need to identify increases during pay restraint periods as precisely as possible: six-monthly rates of change are most appropriate. Due to this, the practice adopted in some studies of using overlapping annual changes to reduce noise in the equation is rejected here.[14]

3.2.2 The independent variables

While the theoretical framework posits a multitude of potentially significant pay determination factors, they tend to be difficult to operationalise. First, it would be appropriate to proxy the economic and political environment because of the financial constraints it generates. However, the available variables for which data exist are of doubtful theoretical validity. Public expenditure growth would not be a good indicator because until 1976 it was determined simultaneously with pay rises, rather than being cash-limited before pay negotiations took place. Any correlation might therefore be misleading. In certain other studies, political party dummy variables have been included,[15] but there is really no solid a priori foundation for such an approach in this instance: Labour

Governments were frequently as anxious to reduce inflation as Conservative Governments.

Second, problems are also encountered in relation to the institutional and organisational context. No time series data exist on managerial and union organisation, bargaining structure, and pay determination procedures. One factor which is sorely missed is a so-called 'bargaining intensity index' which would account for the proportions of the public sector settling between observations, and hence for the timing of implementation dates.[16] Unfortunately, unlike the wage rate index, the Earnings and Hours index does not detail the number of workers settling in each period. A seasonal dummy for one of the half-years between surveys would not adequately capture the variations, for agreements before the 1970s were commonly two years in length, in contrast to the one-year agreements of later years.

As a result, the selected independent variables, described below, emphasise bargaining strategies, especially the criteria used to justify offers and claims, and the relative power of the parties. It will be recalled that the main criteria adopted are real income growth, comparability, and the state of the labour market, while power depends on economic, strategic and political factors.

It is helpful to decompose real wage objectives into the maintenance and growth of real incomes. To capture real wage resistance, the change in the retail price index over the most recent period is used. Negotiators refer to this index more than any other price indicator. The recent change rather than a lagged value or a more complicated distributed lag function is employed because fieldwork showed that bargainers were quick to update their arguments in the event of a change in the index. This does not cause problems of simultaneity between price and wage increases, however, because the ramifications of public sector pay for economy-wide prices are somewhat delayed and indirect. In any case, it has been found elsewhere that even when prices are modelled in a separate equation and two-stage least squares is used, the results are much the same as with a single wage equation.[17]

Real wage growth aims are indicated by the constant term and a time trend representing increasing expectations. Further embellishments, such as changes in direct taxes, and shortfalls of pay from desired levels, are not included. Suitable tax data are not available. Real wage targets, proxied in the past by economic growth rates or ad hoc figures, would be too arbitrary.[18] While a time trend may also be regarded as arbitrary, it has a more sound theoretical basis than currently exists for the alternatives.

It is difficult to specify the increases gained by the key comparators of each public sector group over the 34 years under study. Consequently, the changes in private sector pay in aggregate are favoured instead. However, the series is highly correlated with price increases, so it is omitted from the analysis to prevent multicollinearity.

The conditions in the labor market are proxied by the level of, and changes in, the unemployment rate. The unemployment rate may be influential because it indicates to workers how difficult it is to find a new job should the pay claim result in displacement. The change in the rate may serve to guide workers as to the probability of being displaced: if the rate is rising fast, they may feel more at risk. Another possibility is that in these conditions price expectations fall more rapidly, and employers, seeing more net displacement, are not prepared to bid for labour as competitively. Finally, unemployment is an indicator of the extra demands made on current employees, and hence on overtime and other pay supplements. Of course, the reliability of unemployment as a labour market indicator is less than perfect due to variations in labour hoarding and discouraged worker behaviour. One author has proposed using an 'unemployment plus hoarding' rate, but data for the whole period are unavailable.[19]

The measurement of the unemployment variables is in terms of the ratio of unemployment to employment in each industry, aggregated as appropriate. The data are gathered from the Employees in Employment series, taking the months nearest April and October, and splicing in various years when the basis of the series changed. Where the coverage of the unemployment figures does not match that of the pay series, the unemployment rate of a comparable group is used: for instance, London Transport and British Rail were assumed to have unemployment rates of the magnitude of the Railways Minimum List Heading. Throughout, no lags are included in view of the apparent awareness of negotiators of current unemployment.

Regarding power and militancy, the specification is based on a belief that, broadly, union power and militancy increased during the period, concurrently with real wage expectations, albeit with variations according to economic conditions. Hence the constant, time trend and unemployment variables are assumed to proxy power as well as real wage growth and labour market bargaining criteria.

While this makes the interpretation of the independent variables ambiguous, the alternative proxies are too deficient to use. One category encompasses global measures of relative power, such as pushfulness indexes and strike statistics. For example, the Dow and Dicks-Mireaux five-point subjective rating of union pushfulness[20] is both very imprecise and difficult to develop 35 years in retrospect, distinguishing April from October each year. Meantime, strike statistics suffer from the conceptual problem that they represent employer resistance as much as union militancy. They may not therefore exemplify relative power very well: a positive coefficient may mean management is stronger sometimes, at others that the unions are. Further, they do not capture, nor is there any guarantee that they correlate with, all forms of the exercise of power.

Proxies for particular sources of power are problematic for theoretical reasons, too. Strategic power might be represented by the level of, or change in, union density. However, workers do not necessarily join unions because they are militant and are prepared to take action: as the union growth literature stresses, government action and employer attitudes can be significant catalysts.[21] Political power could be proxied by whether the governing party is Labour or Conservative, but there is no necessary reason why Labour Governments should have been more acquiescent, given the history of pragmatism under most Conservative administrations.

In sum, public sector manual workers' earnings are regressed on a constant, a time trend, price increases, the level and rate of change of unemployment, together with twelve pay restraint policy dummies. Corrections are made for first-order serial correlation.

3.3 Results

The regression results in Table 5.9 show that the equations are reasonably well specified. The degree of fit is fairly good, although the adjusted coefficient of determination deteriorates as the focus becomes more disaggregated. Each variable, other than policy dummies, is significant in one case or another. The price change variable, proxying comparability and real wage protection arguments, is very significant in most cases. Real wage growth arguments and/or union power reflected in the constant and the trend are significant in the corporations and services respectively. Labour market arguments and/or economic power are apparently significant: the change in unemployment is appropriately negative and significant in each case. Although the unemployment level variable generally has an incorrect sign, it is usually insignificant and outweighed by the effect of the other unemployment variable.

The results appear realistic when considered sector by sector. In the public services, the significance of the price and trend variables fits with the common conception of a concern with comparability and (accelerating) real wage growth, and rising militancy.[22] The significance of unemployment indicates that these non-market criteria are mediated somewhat by the market, through either or both labour supply and demand arguments and economic power.

In the public corporations, the importance of real wage growth and comparability is seen once more in the price variable, but again in line with appearances, the arguments seem less potent and significant compared to the public services. The labour market, meantime, has a stronger effect, as might be expected in the trading sector. At the same time, the size and significance of the constant suggest a measure of union power not seen in the public services.

Given the apparent validity of the collective bargaining variables, it seems reasonable to give at least some credence to the findings regarding the effect of the pay restraint strategies, subject to the caveat cited earlier concerning the appropriateness of intercept dummies, and the likelihood that their significance may be understated due to the large number of independent variables relative to the number of observations.

The results for the cash limits era broadly confirm the earlier impressions gained from the data on increases. Holding collective bargaining variables constant, the public sector as a whole saw a year of catch-up increases (recorded here as occurring in CL1), followed by three years of policy which reduced earnings each year below what they would have been by magnitudes of six to eight percentage points, significant at the 90 per cent level.

At a subsectoral level, the public services experienced a small catch-up under CL1, but thereafter saw sizeable restrictions in pay increases. Although the policy effects were not significant at predetermined thresholds, they should not be written off in view of the lack of degrees of freedom. Also, independent of the pay factors, it is likely tnat the expenditure cuts built into the cash limits increased unemployment and hence reduced wage inflation.

The public corporations benefitted more through CL1 than did the public services, other things equal, but the strategy bit in later years, significantly in CL3 and CL4. The magnitude of the restraint was less than in the public service subsector, however.

Independent Variable	Public Sector	Public Services	Public Corporation
Constant	0.87 (0.77)	0.68 (0.36)	2.76** (3.54)
Time trend	0.01 (0.25)	0.06* (1.34)	-0.05 (0.99)
% Unemployment/ Employment	1.21 (1.14)	0.26 (0.17)	1.37** (1.80)
% Change in Unemployment/ Employment	-0.10** (4.09)	-0.07** (2.48)	-0.11** (4.73)
% Change in Retail Prices	0.59** (4.55)	0.77** (4.59)	0.26** (1.88)
1950 Wage Policy	-0.83 (0.38)	-0.73 (0.28)	-1.13 (0.47)
1956-57 Price Freeze	0.79 (0.73)	0.40 (0.31)	0.78 (0.70)
1961-64 Pay Pause and Guiding Light	-0.78 (0.87)	-1.18 (1.12)	-0.32 (0.32)
1965-70 NBP1 Policy	-0.23 (0.22)	-1.31 (1.03)	0.73 (0.64)
1970-72 (N-1)	0.40 (0.25)	-0.72 (0.38)	1.77 (1.03)
1972-74 Stages 1 to 3	-0.46 (0.26)	-1.27 (0.61)	0.80 (0.43)
1974-75 Social Contract Mk. I	4.94** (2.26)	2.77 (1.00)	8.41* (3.68)
1975-79 Phases 1-4	-3.03 (1.24)	-3.76 (1.05)	-0.10 (0.05)
1979-80 CL1	1.78 (0.55)	2.08 (0.43)	4.35* (1.59)
1980-81 CL2	-5.95* (1.41)	-6.51 (1.08)	-1.63 (0.49)
1981-82 CL3	-7.27* (1.31)	-4.92 (0.64)	-5.74* (1.30)
1982-83 CL4	-7.94* (1.33)	-4.39 (0.55)	-7.65* (1.58)

R^2	0.78	0.73	0.73
DW	2.19	2.25	2.01
N	67	67	67

Table 5.9: <u>Regression results of public sector manual workers' earnings, April and October 1950-83</u>

Notes: 1. t-statistics are in parentheses:

** significant at 95% level: 1-tailed test

* significant at 90% level: 1-tailed test

2. Regressions are corrected for first-order serial correlation by using AR1 procedure

In contrast to previous strategies, the cash limits strategy performed remarkably well. The only other period to see negative effects that approached significance in the public sector in aggregate was the Labour Government's Phases 1 to 4.[23] However, the net effect was relatively small. At a disaggregated level, near-significant restraint was also imposed in the public services during the 1961-62 Pay Pause and 1962-64 Guiding Light and in the NBPI era of the late 1960s, but again it was minor. The public corporations, prior to the financial pay restraint policy, had shown little evidence of being restrained by government pay strategies: no period saw a remotely significant negative effect, and only the 1950 policy reduced pay increases by more than one percentage point. The cash limits era was therefore distinctive.

4. Summary

The first two sections of this chapter demonstrate that the cash limits strategy was accompanied by a de-escalation in pay increases of a magnitude unmatched by previous policies apart from Phases 1 to 4. The third section shows that the cash limits strategy appears to have significantly contributed to that fall, and to a much greater extent than previous strategies.

Public service workers suffered greater reductions in increases than public corporations employees during, and due to, the cash limits policy. Nevertheless, the size and significance of the impact of the strategy in the corporation sector represented a much more striking break from past performance than did the effect of cash limits in the public services, which had been prone to suffer the brunt of conventional incomes policy.

Having constructed a picture of the impact of the cash limits pay restraint strategy, the task is now to explain why it was successful overall, and why it had a differential impact across the public sector. Chapter 6 considers the role of the economic-political environment, before the institutional and organisational environment and pay determination strategies are analysed in Chapters 7 and 8.

Notes

1. For instance, this was the view put forward in IDS, Incomes Data Reports, Incomes Data Services, various issues. This conclusion was reached largely based on private sector settlement data.
2. The details concerning incentive schemes were obtained from the relevant organisations in the fieldwork phase of the research.
3. F.T. Blackaby (ed.), British Economic Policy 1960-1974, CUP 1978, pp. 389-92; R. Tarling and F. Wilkinson, 'The Social Contract: Postwar Incomes Policies and Their Inflationary Impact', Cambridge Journal of Economics, 1977, pp. 402-403.
4. W.E.J. McCarthy, 'The Politics of Incomes Policy', in D.E. Butler and A.H. Halsey (eds.), Policy and Politics, Macmillan 1978.
5. A. Dean, 'Earnings in the Public and Private Sectors 1950-1975', NIER, November 1975, pp.60-70.
6. R.F. Elliott and J.L. Fallick, Pay in the Public Sector, Macmillan 1981, Ch. 7.
7. Blackaby, op. cit.
8. C.W. Jefferson, et. al., 'The Control of Incomes and Prices in the U.K. 1964-7: Policy and Experience', Canadian Journal of Economics 1969; G.L. Perry, 'Wages and the Guideposts', American Economic Review 1967, pp. 897-99.
9. R.G. Lipsey and J.M. Parkin, 'Incomes Policy: A Reappraisal', Economica 1970, pp. 85-111; R.L. Thomas and P.J.M. Stoney, 'Unemployment Dispersion as a Determinant of Wage Inflation in the U.K. 1925-66', in M. Parkin and M.T. Sumner (eds.), Incomes Policy and Inflation, MUP 1972, pp. 224-25; J. Taylor, 'Incomes Policy, the Structure of Unemployment and the Phillips Curve: The U.K. Experience

1953-70', in Parkin and Sumner, op. cit., pp. 192-93.

10. R.G. Bodkin et. al., Price Stability and Hign Employment: The Options for Canadian Economic Policy, Queen's Printer, 1967; F.P.R. Brechling, 'Some Empirical Evidence on the Effectiveness of Prices and Incomes Policies', in Parkin and Sumner (eds.), op. cit., pp. 30-47; D.C. Smith, 'Incomes Policy', in R.E. Caves (ed.), Britain's Economic Prospects, Brookings 1968, and in Parkin and Sumner (eds.), op. cit., especially pp. 81-84; NBPI, Prices and Earnings in the U.K., HMSO 1969; Elliott and Fallick, op. cit.

11. L.G. Godfrey, 'Some Comments on the Estimation of the Lipsey-Parkin Inflation Model', and P. Burrows and T. Mitiris, 'Estimating the Impact of Incomes Policy', in Parkin and Sumner, (eds.), op. cit., pp. 138-62.

12. For example, see J. Corina and A.J. Meyrick, The Performance of Incomes and Prices Policy in the United Kingdom 1958-1968.

13. D. Robinson and K. Mayhew, 'Introduction', in Robinson and Mayhew, (eds.), Pay Policies for the Future, OUP 1983, pp. 5-6.

14. Brechling, op. cit., p. 36 has used the overlapping increase approach.

15. For instance, see L.R. Klein and R.J. Ball, 'Some Econometrics of the Determination of Absolute Prices and Wages', EJ 1959, pp. 465-482.

16. One has been constructed for a wider population and in relation to a different pay series by J. Johnston and M. Timbrell, 'Empirical Tests of a Bargaining Theory of Wage Rate Determination' in D. Laidler and D. Purdy (eds.), Inflation and Labour Markets, MUP 1974, pp. 79-108.

17. NBPI, op. cit., Smith, op. cit.,; and R.G. Hines, 'The Determinants of the Rate of Change of Money Wage Rates and the Effectiveness of Incomes Policy', in H.G. Johnson and A.R. Nobay, (eds.), The Current

Inflation, Macmillan 1971, pp. 143-78.

18. This approach was used by Johnston and Timbrell, op. cit., pp. 87-88; and by S.G.B. Henry and P. Ormerod, 'Incomes Policy and Wage Inflation: Empirical Evidence for the U.K. 1961-1977', NIER August 1978, pp. 31-39.

19. Taylor, op. cit., pp. 182-200.

20. L.A. Dicks-Mireaux and C.R. Dow, 'The Determinants of Wage Inflation: U.K. 1946-56', Journal of the Royal Statistical Society, Series A, 1959, pp. 145-184.

21. For instance, see G.S. Bain and R. Price, 'Union Growth, Dimensions, Determinants, and Destiny', in Bain, (ed.), Industrial Relations in Britain, Blackwell 1983, pp. 18-22.

22. For example, D. Winchester, 'Industrial Relations in the Public Sector', in Bain, (ed.), op. cit., Ch. 7.

23. It should be said, however, that some previous work has found significant negative effects in the economy as a whole in other periods. For example, the 1948-50 policy had such effects according to Smith, op. cit., Brechling, op. cit., Hines, op. cit., and Lipsey and Parkin, op. cit. Smith, Brechling, and also Jefferson, op. cit., credit the Pay Pause with success. Studies of the late 1960s are more contradictory on the issue of significance.

Chapter 6

The Financial Context and the Economic-Political Enviroment 1979-83

Since the cash limits pay restraint policy was levelled at authorities' finances, inevitably the search for the explanation of the de-escalation of wage inflation must start with the financial context of public sector pay determination and therefore also with the economic-political environment. However, it does not end there. As the policy did not precisely fix or limit pay rises, in contrast to conventional incomes policy, the institutional context of pay determination together with negotiators' strategies, were also potentially influential forces. As a result, chapters 6 to 8 not only point to salient features of the economic-political context, but also to the institutional environment and bargaining strategies that caused the overall diminution of wage inflation and different effects sector by sector.

This chapter explores the impact of the cash limits pay restraint policy on public sector authorities' finances. It is important to recognise once more that the effect of the policy can only be seen in conjunction with the features of the context in which it applied: it did not operate in a vacuum. The scope for pay increases was not simply a reflection of the design of the policy, although the pay factors and exceptions were certainly important; also relevant were other accounting factors. The size of total budgets was in addition determined by the price planning factor, planned real expenditure growth (and subsequent revisions), overspending and underspending, and the availability of supplementary finance. The possibility of reallocating funds between expenditure heads was affected by the planned real growth of non-pay expenditure, and the ratio of labour to total costs. Similarly, the explanations of the financial constraints recognise that the cash limits policy was influential in conjunction with the wider economic-political environment in which authorities made decisions.

The framework of the chapter is organised by sector. For each part of the public sector, the financial constraints are outlined and then explained in terms of the broad economic-political market environment. In the final section the findings are collated and related to the trend in, and pattern of, increases in pay.

1. Central Government

1.1 The financial context

Under the Conservative Government the financial constraints on central government authorities were tightened from their comparatively loose state under Labour's Phase 4 when the financial year (FY) 1979-80 expenditure plans accommodated a large part of the special case settlements. The stringency of the financial constraints was of a high degree relative to other subsectors. Responsible for this were the cash limits policy design and the other accounting influences on the magnitude and division of budgets.

1.1.1 Government finance

The general pay rule of the cash limits policy, in the form of pay planning factors, led to slower budget growth in nominal terms. The pay factors were steadily reduced, as stated in Chapter 4, from 14 per cent in the 1979-80 pay round, to 6 per cent, 4 per cent, and 3.5 per cent in the next three years. No longer were pay rises accommodated. Instead, they were constrained, the pay factors being set below the rate of price inflation.

The general pay rule constraints were reinforced by the rarity of exceptions to the pay factors. While the Government took over the commitments of the Labour Government to honour the awards of the Standing Commission on Pay Comparability (SCPC) to university manual workers, made election promises to respect other increases subject to offsetting economies, and promised to fund the Phase 4 awards of the armed forces and the civil service, thereafter the Government was much more discriminating.[1] Central government cash limits were only revised upwards to accommodate pay increases for the armed forces in the 1979-80 and 1980-81 pay rounds,[2] health service workers in the 1981-82 round, and for clinical academic staff in universities in 1981-82 and 1982-83.[3] Even then, the cash limits were not always raised sufficiently to meet the costs of the higher pay increases. For example, the NHS settlements in 1981-82 were explicitly under-financed. Health authorities were told that they would have to find one-third of the cost of the initial pay offers above the 4 per cent pay factor; in fact, their contribution to the final offer was greater.[4]

At the same time, but distinct from the pay policy, budgets were under pressure from other sources. First, the price planning factors underlying the cash allocations for non-pay expenditure were also set to instil a sense of financial discipline. In FY 1979-80, the 8.5 per cent assumption of the Labour Government was retained by the incoming Administration, in spite of rising inflation.[5] The following year saw a cost factor for both wages and prices of 14 per cent in central government, based on predictions of the mid-year inflation rate (between 1979 IV and 1980 IV) at the time the Estimates were drawn up. However, by the start of the financial year, the Chancellor admitted that there had been underprovision.[6] In FY 1981-82 the price factor was set at 11 per cent, a more realistic figure, though still constraining. A 9 per cent factor followed the next year.

Thereafter, no specific price factors were stated because plans were made in cash terms, with no breakdown into volume and inflation components. The severity of the assumptions was ensured by a reluctance on the part of the Government to sanction revisions of cash limits due to underprovision for price increases.

The stringency of the cash limits assumptions for both pay and prices has been estimated very approximately by the Treasury by comparing the inflation factors with weighted price and wage indices for all cash-limited spending.[7] The percentage squeeze implied by the comparison appears in the second column of Table 6.1. Clearly, authorities were under pressure throughout, but especially in FY 1979-80.

Second, the provision for the real growth of central government current expenditure on goods and services was reduced below the plans of the Labour Government. It is true that planned growth was of the order of two per cent each financial year up to FY 1981-82 (after which cash planning replaced volume planning), mainly the result of increases in defence and health spending. But this overstates the real growth of budgets containing pay in some authorities at certain times; much of the growth occurred in non-pay budgets. When separated by the cash block structure or budgetary procedures, budgets including pay frequently grew more slowly or even declined in real terms. Also, budget holders could not count on benefitting from revisions to cash limits. As Table 6.1 shows, in central government votes there were actually net deductions in two years. Generally speaking, the cash limits were only varied within a margin of plus or minus one per cent or so. Approximately half the relatively large upward revision in FY 1979-80 was due to SCPC awards, rather than volume expansion.

FY	Price factor	% squeeze	Net revisions to cash limits(%)	Total of cash limit over-spending(%)	Total over-spending and under-spending(%)
1979-80	8.5	4	+ 2.9	0.2	- 0.7
1980-81	14	2	- 0.1	0.2	- 1.1
1981-82	11	1	+ 1.3	0	- 1.8
1982-83	9	n.a.	+ 1.0	negligible	- 2.1
1983-84	n.a.	n.a.	- 0.9	0	- 1.6

Table 6.1: The impact of cash limits on central government expenditure blocks, FY 1979-80 to FY 1983-84

Note: % squeeze relates to all cash-limited expenditure.

Sources: Calculated from various Cash Limits White Papers; and Treasury Memorandum, 'The Operation of Cash Limits' in Treasury and Civil Service Committee, Budgetary Reform, Session 1981-82, 6th Report, Appendix 2.

The most significant example of the real cuts was in the civil service. The Government decided to reduce the size of the civil service from 732,300 in April 1979 to 630,000 by April 1984.[8] In October 1983, soon after the bargaining rounds under study, it was already down to 636,300, a fall of 14 per cent, involving a saving on the pay bill of over £0.75 billion.[9] Since the relevant cash blocks in the civil service generally contained only pay and general administrative expenditure, their real growth was severely limited. Elsewhere, towards the end of the period, NHS employment growth was halted. In FY 1983-84, health authorities were required to settle manpower targets which would reduce employment by 0.5 per cent.[10] Relatively speaking, the growth implications were less pronounced because of the size and timing of the cuts, and the greater freedom of budgetary manoeuvre under the broad cash block structure.

Third, overspending was extremely rare. It amounted to little in global terms, as the penultimate and final columns in the table indicate. The tendency was to underspend. Although relatively large pay rises could technically have been financed in part by lower underspending - and this may have occurred in FY 1979-80 and FY 1980-81 - the amounts of extra finance involved were fractional.

1.1.2 Allocation of the budget

The position was not relaxed by the prospects for reallocating finance between expenditure heads in favour of pay. Not only was non-pay expenditure constrained by the inadequacy of the price inflation factor mentioned above, but also by the Government requiring efficiency savings to be made, which meant that there was little 'fat' for redistribution towards pay. To this end, in the civil service there were a large number of scrutinies and reviews under Lord Rayner which produced significant savings. In FY 1979-81 alone, there were 108 departmental scrutinies of activities and 3 major interdepartmental reviews, resulting in savings of £180 m. per annum, and £29 m. once and for all. In 1982, there were savings of £60 m, following 27 scrutinies and 3 reviews. Another 30 scrutinies and 4 reviews were begun in 1983.[11] In the NHS, in FY 1979-80 and FY 1980-81, the cash limits were set on the implicit assumption that economies would be made, although the extent was not stated.[12] However, in FY 1981-82 an explicit efficiency target of 0.4 per cent was set, against which full-year savings of 0.3 per cent were achieved, and in FY 1982-83 a target of 0.5 per cent was established, and Rayner scrutinies were introduced. The following year no precise target was mentioned, but authorities were expected to plan and implement substantial cost improvements.[13]

Finally, the high ratio of labour to total costs characteristic of most central government authorities and cash blocks made any expenditure-substitution very marginal. This was especially true in the civil service blocks where pay was 85 per cent of the blocks containing pay and general administrative expenditure. In other authorities, such as the NHS, it was still approximately 70 per cent of current expenditure.

1.1.3 Summary

Overall, the financial constraints implied tightly controlled pay budgets, especially in the civil service, and only to a slightly lesser extent in the NHS and armed forces. The intended implications of the restrictive pay assumptions were largely realised. Real growth money, overspending, and reduced underspending, had to be set against the stringency of the price planning factors and the lack of significant virement opportunities.

1.2 The political market environment

The restrictive financial climate - both the cash limits policy effects and its financial setting - can be attributed to the political market context of 1979-83. While many of the structural features of the mid-1979 market outlined in chapter 3 endured the first term of office of the Conservative Government, others changed, together with governmental attitudes, resulting in greater constraints on public expenditure than previously seen.

1.2.1 The political market structure

Significant changes occurred in both the expenditure planning and control processes, tending to strengthen the hand of the Cabinet. This was partly because the parties involved in decision-making changed, and partly, because the rules governing the behaviour of Government, authorities and others in the political market for public expenditure were revised.

The planning of public expenditure

Arguably the most important change in the planning process was the exclusion of the TUC from any meaningful consultation. The TUC had been influential in the framing of the revised Phase 4 policy and the associated cash limits under the Labour Government, but, in line with the new approach to pay restraint policy, there was no role for the unions thereafter.

Soon after the Conservatives came to power, they started the 1979 survey in preparation for the 1980-81 White Paper, but there were no talks between Treasury Ministers and TUC Economic Committee along the lines agreed with the Labour Administration concerning broad priorities of programmes, the quality of services, and the economic assessment underpinning the plans.[14] The TUC pushed for greater involvement in the PESC exercise, but the Chancellor of the Exchequer was not amenable to the idea.[15] To be sure, TUC committee representatives saw the Prime Minister and other ministers in 1979, but that was to respond to the budget rather than to shape it.[16] The TUC also continued to participate in the tripartite National Economic Development Council (NEDC), but were sceptical of the influence it had over Government thinking. They believed that the Government's aim was to use the occasion to give the impression that the parties to the Council were in agreement with their basic policy.[17] The TUC summarised their position in the political market in the following way:

> the central feature of this Government's approach to economic management was the exclusion of the trade union movement from any positive rule. A comprehensive and coherent alternative policy had been set out by the TUC but the Government had not deigned to discuss it, let alone to take any of the TUC's views into account.18

The TUC was effectively reduced to a peripheral role involving various forms of public protest, particularly through the Campaign for Economic and Social Advance (CESA) which was launched in the summer of 1979. The notion was to alert the public to the implications of the Government's economic policies, and to mobilise support for a reversal of those policies.[19] Initially, an information campaign was pursued through 'Cuts Checklists' publications. 1980 saw public demonstrations such as the 'Day of Action' in May and a Labour Party-sponsored national march and demonstration in Liverpool in November. The focus was unemployment in 1981; there was a week of activities, including marches, rallies and a conference, in April, and the following month the 'People's March for Jobs' occurred.

This did not apparently increase the political market power of the TUC, however. Support for these activities was widely seen as very partial. Even the TUC owned up to organisational deficiencies, at least in internal documents.[20] It recognised that it had failed to catch the imagination of the activists, let alone others. The GMWU and COHSE criticised the amount of preparation and consultation with unions before the Day of Action. While the UCW and NUT argued that education of the membership was of paramount importance, the publicity material was difficult to read, and its distribution within unions, except NALGO, was badly organised. The GMWU also felt there had been strategic mistakes in, for example, issuing a general call for vague action, rather than concentrating on those likely to come out. As the CESA proceeded, the constraint of scarce union resources tended to crop up more.[21] Much more generally, the unions were in a difficult position because the Conservatives' policies were divisive - some people fared well while others were unemployed, for example - so that support for TUC action was inevitably uneven.[22]

Without the need to consult the unions, the Government was in a strong position to determine public expenditure. It further strengthened its ability to restrict spending through four innovative rules in the planning process.

First, the so-called 'Star Chamber' was added to the planning procedure in order to attempt to preserve pre-set planning totals.[23] The Star Chamber was a Cabinet committee established in 1981 under the chairmanship of Mr. William Whitelaw with the brief to conciliate differences not settled in the bilateral negotiations between the Treasury and spending departments, in such a way that the outcomes would be perceived as fair by the parties, yet not breach the planning total.

The new procedure appeared to have some effect on the number of unresolved issues going to Cabinet, and ultimately public spending growth. In the 1979 and 1980 PESC rounds there had been a large number of appeals to Cabinet over the head of the Chief Secretary to the Treasury, Mr. John Biffen. Mrs. Thatcher had been unable to obtain the spending cuts she desired, due to the politics of the Cabinet, in which Ministers tended to help each other against the Treasury. The most notable example was in the autumn of 1980 when the Defence, Environment and Education Secretaries defended their corners so aggressively that the Treasury could make only half the £2b cuts it desired.[24] The PESC round of 1981 saw the 'Star Chamber' resolve many of the impasses. Although some others were still appealed to the Prime Minister, this was perhaps inevitable in view of the tough stance of the new Chief Secretary, Mr. Leon Brittan. In the last year of interest, 1982, the Star Chamber was not used as the inflation factor was less stringent.

Secondly, cash planning was introduced from FY 1982-83 onwards. Political market activity thus focused on the cash levels of expenditure desired rather than expenditure volumes and pay and price factors.[25] Although there is no way to tell, the new method of planning appeared to strengthen the position of those in the political market in favour of lower spending growth. This was certainly the intention, as was revealed in a letter from Sir Geoffrey Howe, the Chancellor, to Mr. Len Murray at the TUC:

> One reason why public expenditure has been so excessively buoyant, and has had to be cut back,...may be found in the too exclusive concentration of forward planning on "volume" figures without sufficient attention to the financial constraints.[26]

It was explicitly stated that, under the new rules, there could not 'be any commitment to particular levels of volume provisions stretching away into the future.'[27] This reduced the power of spending departments which could no longer argue that they needed particular allocations of funds to finance their volume plans.

Thirdly, the Conservative Government reduced the planning period covered by Public Expenditure White Papers from 4 years to 3 years, starting with its March 1981 White Paper for FY 1981-82 to 1983-84. This increased, or at least reflected, the tendency to focus on short-term financial conditions and make fewer long-term volume planning commitments.

Fourthly, and finally, the Government delayed its release of the Public Expenditure White Paper until March in 1980, 1981 and 1982, and February in 1983, with the effect of making the link between taxation and expenditure more visible, thus heightening awareness of the economy's ability to pay for greater public expenditure.

The increased power of the Government survived procedural changes that occurred in Parliament, whereby the House of Commons attempted to increase its influence in the political market. The reforms were seen by their progenitors in the Select Committee on Procedure (Supply) as providing 'a real opportunity for the House to begin to re-assert its historic function of scrutinising and controlling public expenditure.'[28] Beginning in the 1982-83 session, the former Supply Days were replaced with 3 Estimates Days and 19 Opposition Days. Estimates Days were to be devoted to debates and votes on Supply Estimates, priorities being decided by Parliament on the advice of the Liaison Committee, comprising the chairmen of all the select committees. Estimates could be reduced but not increased. Opposition Days were for debates on topics chosen by the Opposition. Presentational changes were also made to the Estimates: introductory notes were added and more detailed subhead narratives given.[29]

In fact, these reforms did little to increase Parliamentary power over the planning process. Apart from the fact that they were introduced only at the end of the period under study, they did not counter many of the deficiencies in the system of accountability to Parliament. First, there remained problems with the information given about the programmes that were to be voted upon. Votes and subheads were often explained in terms so general as to be useless, or simply stated the broad aims of the programme. It was not always possible to assess the level of service against the outlay.[30] In some cases the votes and subheads did not match identifiable programmes.[31] With cash planning, the volume detail in the Expenditure White Paper was diminished.[32] Second, the scrutiny process was hindered by the later publication of the White Paper under the Conservatives. There was little time to discuss the proposals before they were given final form in the Estimates.[33] The debates on the White Paper did benefit, however, from the practice of holding them after the Treasury and Civil Service Committee had reported on it. Third, the voting process was far from discriminating. Parliament could not control the detail of expenditure.[34] Also, the Government could rely on approval for its plans due to its Parliamentary majority.

The new Select Committees, set up along Departmental lines in 1979, significantly raised consciousness, although they had little perceptible influence on Government plans. This contradicts the view of the chairman of the Treasury and Civil Service Committee (TCSC), Mr. Du Cann, who posited that

> the intention behind their establishment was to sharply alter the relationship between MPs and the Executive, to redress the balance of power between the two, and that is what is happening.35

It is true that the inquiries of the Public Accounts Committee and the deliberations of the TCSC and the Procedure Committee led to the improvement of Parliamentary scrutiny, but, as seen above, problems remained of a considerable nature. Certainly, the TCSC voiced concern over certain expenditure practices that appeared to weaken control, such as staging pay increases within given cash limits, and the Government changed its policy in response. However, it also made more general criticisms of economic policy to no avail.[36] The fundamental weakness of the Select Committees in the political market was that they were only advisory: they had no power to amend the Government's expenditure plans.[37]

The control of public expenditure

The political market power of the Government in planning expenditure was matched by its power in the control of expenditure. As a result, the enforcement of the cash limits pay restraint policy was assured, as was the broader public expenditure policy of the Government. Expenditure continued to be controlled through the Treasury's Financial Information System and according to the operational rules of the cash limits system. However, the 1979 vintage of the system was augmented during the period in three ways which produced tighter Government control.

The first change to occur was at the beginning of the 1980-81 pay round when staging or delaying agreements was made difficult, if not impossible. Following the 1979-80 non-industrial civil service settlement, which involved a delay in the implementation date in order to finance the deal within the cash limit, the TCSC recommended the practice be discontinued for fear that public expenditure control would be prejudiced by the consequent inflation of base figures for the following year.[38] Hence the Government stated a new policy:

> The Government...thinks it desirable for the future to avoid the delay or staging of awards, and will avoid it where it is itself

the employer. If, this general policy notwithstanding, a public services employer were to stage or delay an award, the Government, when setting the relevant cash limits for the subsequent year, would not allow for the element of the award which had only been made compatible with the cash limit by such delay or staging.39

The second reform was in the use of the contingency reserve with effect from FY 1981-82. Hitherto, the reserve had been charged whenever there were changes in the planned volume of spending. Under the new rules, any increases in price or pay factors were also to be charged.[40] Obviously, this provided a disincentive for the Government to relax its stance.

Thirdly, the introduction of cash planning from FY 1982-83 meant that pay and price increases in excess of the implicit inflation factors would reduce volume spending, not only in that financial year, but in succeeding years too. In the absence of volume planning, there was no opportunity, as there had been before, to have (full) volume plans revalued the next year at outturn wage and price levels.[41] This encouraged a closer adherence to the inflation factors, where managers were able to exert influence.

Finally, it should be mentioned that a recommendation by the Treasury and the Public Accounts Committee for limited flexibility in the carry-over of capital expenditure from one year to the next was turned down by the Government because it was feared that up to £250 m. might be added to public expenditure in FY 1982-83.[42] Hence the cash limits remained intact.

1.2.2 Political market attitudes

The dominant position of the Government, particularly the Cabinet, in the political market meant that the financial constraints were largely a reflection of Government attitudes. The roots of the pay factor restraint policy, together with the other financial constraints, such as the real growth provision, the price factors, and savings requirements in non-pay expenditure, could be discerned in Government attitudes towards public expenditure, inflation, waste in expenditure, and bureaucracy.

As seen in Chapter 3, the Government was elected on a platform that included public expenditure restraint. This did not just prompt the control of wage inflation through the policy of lowering pay factors year by year, but pervaded the general approach to public finance. Of course, within the broad strategy there were priorities: the defence budget was favoured for political reasons, while the health budget had to grow annually by 0.7 per cent if services were to be maintained and match demographic trends.[43]

Expenditure restraint did not find total support throughout the Cabinet, however. While the Prime Minister made a virtue out of expenditure cuts, some Ministers fiercely resisted attempts to reduce their programmes, as did Mr. Francis Pym at Defence, for example.[44] This had two consequences for the shape of the financial constraints. One was that the real growth rate of public expenditure was positive in central government programmes, although no doubt less than it would otherwise have been. The other was that in the absence of agreed cuts, inadequate inflation factors were used to make volume reductions. As one participant put it:

> We have a great argument about the volume of spending next year. When the Treasury is defeated by the forces of the anti-Christ, they regroup and try again through the back door of cash limits.45

Second, the Government's attitudes towards inflation necessarily coloured the view of the Cabinet in setting the pay factor. As the Treasury stated:

> For the public services, one of the Government's main roles is to set the expenditure provision from which the pay bill will be met at a level appropriate to market forces, such as recruitment and

retention needs, and to what can be afforded. This provision is intended to influence the relevant negotiations.46

Thirdly, the Government was preoccupied with the inefficient use of funds.[47] This led to attempts to make savings, to eliminate functions, and to increase competition in, and privatisation (contracting-out) of services.[48] The two primary methods of achieving these goals were the Rayner scrutinies and reviews and the management information system for ministers (MINIS). The lessons of scrutinies in one department were applied more broadly across the civil service by the Civil Service Department (CSD).[49] MINIS originated in the Department of Environment where Mr. Michael Heseltine used it to cut the staff by a third. The system worked by collecting information about staffing, organisation, functions, costs, resources, and past performance; the department's work was then reviewed to ensure efficiency.[50] The financial management initiative (FMI) of the Government in May 1982 in effect universalised MINIS, requiring managers in departments to assess outputs or performance in relation to objectives and resources.[51] In addition, specific inquiries took place. The Wardale chain of command review in the Civil Service recommended the abolition of a number of open-structure posts.[52] As the period under study ended, the Griffiths NHS management inquiry was being conducted. It had been commissioned to advise on the management action needed to secure the best value for money and the best possible service to patients. The inquiry was in no doubt that major cost improvements could be initiated.[53] As a result of such reviews, planned spending levels were curbed.

Fourth, the Government was vehemently opposed to bureaucracy. It was particularly antagonistic towards the civil service. One reason may have been that Mrs. Thatcher was the first Prime Minister since Sir Alec Douglas-Home not to have been a former civil servant.[54] The result was partly the efficiency campaign cited above. Also, apparently often independent of efficiency considerations, the Government demanded that departments should aim to contract out much more of their work.[55] It was not surprising that the financial conditions in the civil service were austere.

Although not powerful, certain other parties in the political market had attitudes supportive of the Government's stance. The Treasury and Civil Service Committee, in particular, was more anxious than the Government itself to control expenditure in line with plans. As noted earlier, in its reports it was critical of the delaying and staging of agreements; it also warned the Government against interpreting planned employment cuts as warranting larger pay rises; and it pushed for the wider application of MINIS.[56]

In addition, departments and authorities were prepared to keep within the cash limits. Apart from Ministerial commitment to the constraints, departmental civil servants were reluctant to break the limits.[57] Their reasons were that the subsequent Treasury inquisition, as it was referred to by an interviewee, involved too much time, trouble and embarrassment.[58]

Meanwhile, there were dissenting views from the union movement, as the Campaign for Economic and Social Advance indicated. The attitudes of Congress were clearly stated in a 1979 resolution:

> (Congress) rejects entirely the argument that the legitimate pay increases gained in excess of the cash limits must be paid for by reductions in manpower, and the proposition that the required level of public services should depend upon public service workers being prepared to accept less than a fair reward for their labour. It further rejects the policy of refusing to up-rate cash limits in respect of known changes in costs and expenditure.59

However, these views were made largely irrelevant by the structure of the political market.

1.2.3 Summary

The political market therefore changed during 1979-83 to generate a tough cash limits pay restraint policy and other austere financial measures. Structurally, the market re-formed to give the Cabinet effective power over other parties. In particular, the role of the unions was diminished by the Government's choice of method of pay restraint enforcement. Numerous changes to the rules regarding the planning and control of public expenditure added to the power of the Government to curb spending. The Conservatives made use of their stronger market position to impose stringent financial constraints in order to move towards their objectives of lower inflation, reduced public expenditure growth, and less waste and bureaucracy.

2. Local Authorities

2.1 The financial context

The financial constraints faced by local government became progressively tighter over the period 1979-83. There were pressures on both finance and expenditure. Government grant, being a proportion of approved expenditure, was affected by the assumptions underlying the expenditure figure, (namely the pay factor in the pay restraint policy, the price inflation factor, and the planned real growth of expenditure), as well as by the rate of grant contribution. Other finance largely reflected trends in rate income. Local government expenditure was guided by the Government's plans. Although tough, it should be said that relative to central government the constraints were not as inflexible.

2.1.1 Government finance

The cash limits pay restraint policy, based on declining pay factors, was instrumental in steadily tightening the ability to pay. Around the time of the Rate Support Grant (RSG) announcement, usually in the autumn, the pay factor to cover the bargaining round until the following July was chosen and embodied in the RSG Increase Orders for the current financial year, (until the Orders were abolished under cash planning), and in the RSG settlement for the forthcoming year. The time-path of the pay factors was the same as in central government, except the cost factor for FY 1980-81 was 13 per cent, one per cent less than in central government, due to the mix of expenditure. The factors acted as true constraints since they were set below local authorities' expectations of pay increases. For example, the FY 1980-81 13 per cent cost factor was less than the 17.5 per cent assumption that local authority associations had been working with in the RSG negotiations.[60]

Exceptions to the pay factor were only common at the beginning of the period as a result of the recommendations of the Standing Commission on Pay Comparability and other pay reviews. While the Government kept its election promise to honour those settlements, funds were subject to a significant across-the-board reduction, however.[61] In this spirit, since the FY 1979-80 financial allocation contained only 5 per cent to cover pay rises, the first Increase Order in January 1980 provided additional money to cover settlements, minus a deduction of £310 m. The second Increase Order, with effect from November 1980, put a cash limit on outstanding awards to white-collar staff, teachers, and craftsmen, of £150 m.[62] In the same way, the RSG settlements for FY 1980-81, announced in November 1979, and for FY 1981-82 in November 1980, included an allowance for outstanding awards.[63] This was estimated by the Association of Metropolitan Authorities (AMA) as affording increases of only 10 per cent.[64] The pressures on finance were summarised by one Director of Finance:

> when eventual comparability awards were known there were not too many treasurers still smiling. This led to either supplementary rates or an effective cutback in allowances for inflation on goods and services. On many heads of expenditure it is this hidden real term cutback that has made more impact on service levels than any overt 2 per cent reduction exercise.65

After the commitments of the past had been fulfilled, there were few exceptions to pay factors. The only reported occasion when the RSG was increased to accommodate pay increases was to cover the police pay increases in FY 1981-82.[66]

Other financial influences on grant reinforced the effect of the pay restraint policy. In the years they were announced, the price factors were comparable to those in central government (except for the lower, 13 per cent, cost provision in FY 1980-81). They also had similar consequences. By underestimating inflation, the amount of grant given to local government was reduced in real terms. This was most significant in FY 1979-80 and 1980-81. In the first year, when the Labour Government's 8-1/2 per cent assumption was not revised in spite of higher inflation, it was calculated that inadequate pay and price provision in grants amounted to 2.8 per cent of relevant expenditure, implying an underestimation of inflation of approximately 4 per cent, a figure comparable to that calculated by the Treasury for the public services as a whole (cited earlier).[67] In the following year, the cost assumption of 13 per cent contrasted with the 15 per cent figure proposed by authorities in the RSG negotiations, and the 19 per cent assumed on average in budgets.[68] The consequences for the amount of grant led to claims by employers that they could afford only 9 per cent for pay increases.[69]

The pressures caused by insufficient allocations to cover inflation were compounded by the planned current volume expenditure levels on which the Government was prepared to pay grant. In contrast to central government as a whole, current expenditure was set to decline in real terms each year under volume planning. Once set, there were no upward revisions during the year.[70] Table 6.2 shows that the planned real cuts were especially harsh in FY 1981-82 when reductions of 3 per cent were required against the previous year's planned levels, which in fact were 2.5 per cent below outturn.

In later years when the plans were in cash terms, grant was restricted by volume cuts or insufficient allowances for inflation, whichever interpretation is preferred. In FY 1982-83, the RER survey revealed authorities were budgeting for inflation of 7.9 per cent, but the cash increase in plans was only 2 per cent, an implicit real decrease in expenditure plans of 5.9 per cent. In the next year, inflation was budgeted at 5.6 per cent against a 3 per cent cash increase in government plans, a real reduction of 2.6 per cent.[71]

Not only was expenditure planned to fall, but also the Government's contribution was reduced. It fell from 61 per cent to 59.1 per cent in FY 1981-82 due to the narrowing of the coverage of the grant figure from England and Wales jointly to England singly. It was then cut significantly to 56.1 per cent in FY 1982-83, and to 52.8 per cent in FY 1983-84.[72]

The constraints imposed by grant allocations were further tightened by grant holdbacks each year after 1979-80, arising due to authorities infringing the Government's expenditure guidelines. The penalties amounted

Year	Country	Real/ Cash terms	Base	% change implicit in plans	% Over spending	% Adjustment to next year's plans
1979-80	Eng. & Wales	real	78-79 outturn	-1.4	2.0	
1980-81	Eng. & Wales	real	78-79 outturn	-2.0	2.5	
1981-82	England	real /cash	80-81 plans	-3.1(real)	8.0(cash)	+6.5(cash)
1982-83	England	cash	81-82 budgets	+2.0	6.5	+5.0
1983-84	England	cash	82-83 budgets	+3.0	3.0	+2.5

Table 6.2: Local authority planned current expenditure and overspending, FY 1979-80 to FY 1983-84

Source: Public Expenditure White Papers

Year	Coverage	% RSG contribution	Grant holdback (£ M)
1979-80	England & Wales	61.0	-
1980-81	England & Wales	61.0	200
1981-82	England	59.1	124
1982-83	England	56.1	312*
1983-84	England	52.8	224*

Table 6.3: Government grants to local authorities: contributions and holdbacks FY 1979-80 to FY 1983-84

Note: * denotes provisional.

Source: RSG Announcements.

to 1 or 2 per cent of grant each year.[73] Table 6.3 gives the monetary amounts.

Therefore, in total, government grant to local authorities was severely restricted by the pay restraint policy on pay factors. This was supplemented by low price factors in the first few years of the Government's term of office. From FY 1981-82 onwards, the volume or cash expenditure plans, grant holdback, and lower contribution rates were the primary additional causes.

2.1.2 Other finance

The financial outlook was less austere than the grants position implied, however. Authorities were usually able to raise their rate income at a much faster rate than the inflation assumptions of the Government, thus offsetting some of the explicit and the back-door cuts in real grant provision.[74] Nevertheless, the extent of rate increases declined over time, so that the general picture of a declining ability to pay was sustained. Table 6.4 shows the trend in average rate increases for domestic and non-domestic ratepayers in England and Wales.

Balances were also drawn on each year to finance expenditure, but the amounts involved were trifling, being between 0.4 and 1.1 per cent of net rate fund expenditure.[75]

2.1.3 Expenditure

Apart from constraints on grants, authorities faced expenditure targets each year.[76] Volume targets were set in FY 1980-81 and 1981-82, while cash expenditure targets were given for later years, reflecting the basis of expenditure planning by the Government. The volume targets were the same for all authorities. They were to achieve real reductions of 2

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per cent below FY 1978-79 outturns in FY 1980-81, and real cuts of 3.1 per cent below FY 1980-81 plans in FY 1981-82. Cash targets applied on an

Year	Rate Increases (%)	
	Domestic	Non-domestic
1980-81	27	22
1981-82	19.5	16.9
1982-83	15.4	12.3
1983-84	7.1	6.0

Table 6.4: Rate increases in local government in England and Wales, FY 1980-81 to 1983-84

Source: Public Finance and Accountancy, 1980-83, June issues.

individual authority basis. In FY 1982-83, the cash targets were uniformly based on FY 1981-82 budgets, revalued by the pay and price factors of 4 and 9 per cent respectively, and cut in real terms by no more than 1 per cent where authorities had met their volume targets and had expenditure levels below the levels used in grant calculations; elsewhere they were cut by up to 7 per cent. In FY 1983-84 low-spenders were allowed a 4 per cent cash increase; this implied a 1 per cent real cut if inflation turned out to be 5 per cent, as the Government believed it might, although it did not state an official price factor. High-spenders were asked to reduce cash spending by 1 per cent, probably tantamount to a real fall of 6 per cent.

Table 6.2 shows that, in aggregate, overspending was seen each year. However, typically, two-thirds of authorities attained, or were within two per cent of, the targets. Indeed, approximately half the overspending in 1983-84, according to budget figures, was in the Greater London Council (GLC) and the Inner London Education Authority.[77] It follows that the expenditure targets were taken into account by most authorities.

The implications for the ability to pay varied according to whether the targets were set in volume or cash terms. Volume targets were not a significant constraint on the ability to pay, since expenditure was permitted to increase to cover inflation. In contrast, cash targets were constraining because they included both volume and inflation provisions. The consequences for pay could have been worse, however. Normally, under cash planning, unlike under volume planning, current plans are not increased to reflect the outturn of the previous year, such as pay or price rises over the inflation factors (where stated) or volume overspending. However, the cash bases were increased in FY 1982-83 and 1983-84 for local authorities, as the last column of Table 6.2 shows, which eased the cash expenditure restraint.[78]

2.1.4 Allocation of the budget

There was a modicum of flexibility in the allocation of monies between the spending heads of budgets, but pay expenditure was still closely circumscribed. Pay was approximately 70 per cent of current expenditure. As the price factors intimate, non-pay spending was subject to squeeze too, so there was little excess 'fat' to redistribute. Only minor amounts of rate finance could be diverted from the capital budget to current spending because government capital grants had been severely cut.[79]

2.1.5 Summary

Local authorities therefore faced an increasingly stark financial environment. The ability to pay was progressively reduced by the pay restraint policy of diminishing pay factors which lessened the amount of government grant; grant was also restricted by inadequate price factors, real cuts in planned spending, and grant percentage cuts and penalties. While this put downward pressure on the ability to pay, it was alleviated by rate increases up to and including FY 1981-82. But, thereafter, cash expenditure targets effectively removed this source of flexibility, given the extent to which authorities were prepared to keep within, or close to, targets. Rate increases were duly small in FY 1983-84. With a cut in volume in prospect, and little scope for expenditure reallocation, the effect of the pay factors was brought home to negotiators.

In comparison with central government, local government's ability to pay was somewhat less constrained in the first half of the period under study, the pay factors not biting to the same extent. It became much more similar in the second half, with both sectors having to recognise the implications of the pay factors. The proximate causes lay in the character of the financial constraints. Central government authorities by and large had fixed cash budgets throughout, which, while notionally increasing in real terms, were limited by inadequate price factors. As has just been noted, local authorities were not subject to controls over total nominal expenditure until later in the period.

2.2 The political market envionment

The root causes of the increasingly stringent financial environment of local authorities can be traced to changes in the structure of the political market, largely in the centre-periphery segment, in which the authorities, their associations, Government, Parliament and pressure groups interacted. The Government assumed a much more dominant role in both the planning and control of expenditure, including the formulation and administration of the pay restraint policy. A different informal style within the pre-existing formal structures was adopted, and radical changes to the system of rules governing central-local financial decision-making power were made.

2.2.1 The centre-periphery political submarket structure

The planning of expenditure

The Government's position in the planning of expenditure was strengthened chiefly through rejecting union influence on the cash limits pay restraint policy.[80] The pay factors were of the Government's own choosing, so grants to local authorities were under greater control. Total cash expenditure was therefore subject to more indirect pressure.

Quite apart from the lack of involvement in pay factor decisions, established procedures for consultation with the unions over local government finance were ignored on occasions. For example, on gaining power the Conservative Government, without consultation, announced its policy towards manpower reductions which underlay its expenditure volume objectives. Furthermore, due to only short notice being given, just three unions were able to attend the meeting at which the announcement was made.[81] Also, the Government unilaterally changed the basis of the Joint Manpower Watch employment survey without discussion, although the survey was a joint exercise.[82]

Within the formal expenditure planning process, in which views were taken on expenditure totals and grant levels, the Government paid less heed to the attitudes of other parties. The Consultative Council on Local Government Finance (CCLGF) had been criticised in the past for being dominated by government; under the Conservatives, local authority association heads complained that there was even less consultation and that the CCLGF was merely a means of telling them what to do.[83]

In particular, the room for manoeuvre in negotiations in the expenditure steering and sub-groups was more restricted. In the FY 1981-82 RSG negotiations, for example, the groups were presented with benchmarks for service levels by the Government, with no discussion. When forecasting the effects of current policies, the departmental view tended to prevail. This was especially the case in education over prospective savings in school meal expenditure, and over the accruals from school closures stemming from the decline in the school-age population.[84]

A second factor was that even when genuine negotiations occurred, the results were frequently overridden by Cabinet spending decisions. For instance, after the FY 1981-82 negotiations, additional cuts were imposed.[85] For FY 1982-83, discussions were based on initial budgets for

FY 1981-82, but in fact the expenditure outturn was very different because the Environment Secretary had demanded revised budgets. After the negotiations, further cuts were made in the planning total. Only the education expenditure group managed to reconvene to give further consideration to the appropriate service levels.[86] In respect of the RSG for FY 1983-84, the Environment Secretary asserted tnat, although he was going through the statutory consultation process, the cash totals and grant figures were not negotiable.[87]

As well as the shift in power between interested parties towards the Government caused by consultation practices, respect for Governmental interests in expenditure planning was enhanced by the changes in the rules of the planning process identified in the context of central government. While grant allocations and spending plans were probably tougher due to the Star Chamber, the shortening of the planning period and the delayed publication of the White Paper, the key reform was in the switch to cash planning in FY 1982-83. For the first part of the Conservative administration's period of office, volume spending by local authorities had been the focus of expenditure plans. Local authorities therefore retained power over cash spending. Later, with cash planning, the focus turned to desired cash spending levels. This did not mean, however, that local authorities totally surrendered their power to Government. Although under significantly more pressure, for constitutional reasons local government retained its autonomy over spending. In other words, local government became subject to a system more akin to cash limits, but still different. Expenditure was not so much limited as guided.

Parliamentary intervention in the planning process continued to be marginal. Although 1982-83 saw reformed Parliamentary procedures concerning debates on the Estimates, little was gained because it was already possible to debate the RSG Reports. While the Estimates could be reduced, significant change was unlikely due to the timing of the scrutiny process. Furthermore, it was not open to Parliament to vote to change anything other than the grant provision.[88]

The control of expenditure

The Government's heightened power over the planning of expenditure was matched by an increased control of outturns. This was achieved by means of changes to the rules concerning both finance and expenditure. In particular, by the end of the period the main sources of local authorities' power - rate finance autonomy and cash spending freedom - had been bridled.

First, with respect to government finance, the Government gained a stronger political market position in the control of grant through the amendments to the cash limits system identified in the discussion of central government finance. The charging of increased inflation factors to the contingency reserve encouraged the maintenance of initial pay factors. The policy on staging from 1980-81 prevented the inflation of the base expenditure figures for subsequent years, and hence the amount of grant. Finally, cash planning, which did not automatically include overspending or inflation in excess of pay and price factors in the base for the following year, gave the Government the option of tightly controlling grant, not just in the current year, but also over the medium term.

Rate flexibility was curtailed with effect from FY 1982-83 through the Local Government Finance Act 1982 which provided for the abolition of supplementary rates.[89] Although main rates were potentially higher, once raised, the availability of finance was thus more inflexible. Authorities therefore no longer had as much freedom during the year. In particular, supplementary rates could not be raised in the face of collective bargaining pressure or to pay for government grant penalties.

The original intention was to weaken local government's authority even more, redistributing it to the Government and electorate. The initial form of the Bill provided for limits to be set on main rates by the Government. According to this, if a supplementary rate was needed which took local authorities over the limit, then approval by means of a referendum, framed by the Government, was required.[90] However, this idea never came to fruition.

It should also be pointed out that after the end of the period of interest, in FY 1985-86, selective rate limitation was introduced. The Government identified high-spending authorities according to general criteria, and the Environment Secretary then assessed the maximum rate to be demanded to finance approved expenditure, taking balances into account.[91]

Perhaps the most radical changes in the political market structure in 1979-83 occurred in the area of expenditure control, where the Government gained power relative to local authorities. First of all, penalties were introduced to induce local government to keep to volume, and, later, cash plans. As the period proceeded, the penalties became less general and more focused on overspenders, and the tariff structure changed to penalise major transgressors more and more severely.

In FY 1980-81, the so-called 'transitional arrangements' applied before the passing of the Local Government Planning and Land Act 1980. Three types of penalty were imposed by the Government. First, a general reduction in the RSG of £200m. was made in the November 1980 Increase Order. Second, no additional urban programme grant was given to Hackney, Islington, and Lambeth. Third, it was proposed to reduce the grant of authorities where rates exceeded 155p in the pound unless the planned expenditure volume target had been met or exceptional efforts had been made to cut spending.[92]

In FY 1981-82 the penalties became more directed and big overspenders were penalised more. If the three-year volume target reduction was not attained, then grant was reduced in general, but with percentage exemptions varying according to whether overspending was between 0 and 2 per cent, between 2 and 4 per cent, or over 4 per cent. Authorities spending below Grant Related Expenditure (GRE) - that is, the Government's assessment of an authority's necessary expenditure - were exempt from penalty.[93]

The targets for FY 1982-83, differentiated by authority, were enforced along similar lines except the penalties showed more variation, being 3p in the pound for each percentage point over target expenditure, up to a 15p maximum. Again, spending below GRE led to exemptions.[94] While the penalties appeared to give more control to the Government, its position was somewhat undermined by the exemptions which gave authorities license to overspend up to their GREs.[95]

The loophole was blocked in FY 1983-84, and the tariff was increased so that 1p in the pound was payable for each 1 per cent of overspending up to 2 per cent; and 5p in the pound for each percentage point thereafter, without any maximum.[96]

As well as applying the stick of penalties, the carrot of grant incentives was used to curb spending. Whereas the years up to and including FY 1980-81 had seen grant partly distributed according to needs and resources, which encouraged higher spending, a block grant unifying these elements and removing those incentives was introduced for FY 1981-82 by the Local Government Planning and Land Act 1980. No longer was grant dependent on past expenditure levels; needs were instead assessed according to authority characteristics, especially the size of client groups.

Further, constant percentage marginal grant contributions characteristic of the resources element, were replaced by a threshold and taper by which the government's marginal grant contributions fell when actual expenditure was greater than 10 per cent above GRE.[97] The tariff was made steeper in FY 1982-83.[98]

Finally, the structure of the political market changed at the expense of local authorities with the growth of audit by independently-appointed bodies. The Government encouraged and ordered audit and scrutiny by private sector accountants in numerous cases. For instance, Coopers and Lybrand reported on 26 councils and, inter alia, recommended a greater degree of contracting out.[99] Meanwhile, the Chief Inspector of Audit carried out a critical review of bonus schemes.[100] The Local Government Finance Act 1982 established an independent Audit Commission charged with the duty of satisfying itself that local authorities had proper arrangements for securing value-for-money; and the duty of carrying out and publishing across-the-board studies into the economy, efficiency and effectiveness of local authority services.[101] Such measures made expenditure control more likely.

While there is no doubt that Government power was duly increased, it did not have absolute control. If authorities were willing to increase main rates to cover the prospective grant penalties, then the spending targets could be ignored quite legitimately. The lack of full control was manifest in the Government being obliged to partially adjust the base expenditure figures under cash planning for a given year, in recognition of overspending by authorities in the aggregate in the previous year.[102]

2.2.2 Centre-periphery political submarket attitudes

The relatively strong position of the Government in the political market meant that the financial constraints faced by local authorities largely reflected the Government's attitudes. However, the fact that the authorities were not obliged to succumb to absolute rate and expenditure control, although under pressure, meant that authority attitudes were relevant too.

The basis for the Government wishing to utilise its political market power over local authorities was primarily macro-economic, as in mid-1979. According to the Government:

> Neither local government nor local taxpayers are in a position to assess either the relative claims of local services as a whole to national resources or the overall economic impact of local expenditure. These are matters on which the central government must take a strategic view in the course of its management of economic policy. For these reasons, it is essential that the Government should be able to influence local revenue-raising and local expenditure.[103]

The primary concerns in limiting finance and expenditure were inflation, the magnitude of public expenditure, and efficiency.

The worry about inflation was explicit in RSG announcements. For instance, the 1980-81 Report stated that 'the Government is not prepared to print money to finance levels of expenditure the country cannot afford.'[104] The result was stiff pay and price assumptions and reduced expenditure plans.

The financial claims of the local authorities were also seen as prejudicing the health of the economy. The general argument was stated by the Chief Secretary to the Treasury:

> ...their actions, like those of the rest of the public sector, can at their worst stifle enterprise, choke off growth and destroy jobs.[105]

More specifically, the 1981-82 RSG announcement, for example, was partly based on the promise that a crowding-out of the private sector was occurring:

> We must reduce the demands of government - local as well as central - on the wealth-producing sector of the economy. ...the combined financial decisions of all local authorities have a powerful effect on interest rates and the economy in general.[106]

This stance was not only manifested in financial restraint. Notably, the Government vigorously urged authorities to reduce manpower. For instance, after the election, the Environment Secretary called for a freeze on recruitment whenever possible and an urgent review of manpower requirements.[107] In addition, the Government reduced the number of circulars and removed a large number of statutory controls, a move which facilitated a decline in the standard of service and the level of expenditure.[108]

The third aim was 'to secure a more efficient and a more cost-effective system of local government.'[109] This was seen in the financial restrictions and in Government policy towards audits and privatisation. Thus, the financing of the SCPC settlements was reduced in order to secure improvements in efficiency and productivity.[110] Privatisation was encouraged especially in building work, where private contractors were to compete with direct labour organisations, and in refuse collection.[111]

In contrast, by and large, local authorities were anxious about the level of service provision and would not have chosen to cut back on spending. However, this was overridden in some cases by political goodwill. For example, the attitude of the associations towards the FY 1980-81 settlement was relatively mild because the Conservatives were dominant in each.[112] This was less true in later years because Labour gained control of the AMA in 1980. In individual authorities, overspending was more likely where there was not a Conservative majority.[113]

The local authorities were more strident in their opposition to the legislated controls on their autonomy. For example, all the associations were opposed to the Planning and Land Act 1980: as the Conservative leader of the GLC remarked, 'it takes a genius to unite the AMA, ADC, ACC, LBA and GLC.'[114] The ACC, however, were apparently willing to compromise their principles: they withdrew their opposition in Parliament in return for a favourable grant distribution.[115]

Therefore, there was some coincidence of views between the Government and local authorities, but differences remained. The political market structure determined which carried weight.

2.2.3 The local political submarket structure and attitudes

The local political submarket structure changed as a consequence of developments in the centre-periphery submarket. The efforts of the Government to increase its control of finance and expenditure naturally restrained the power of local authorities vis-a-vis the electorate. There was less need to increase rates because spending was subject to targets that were generally respected, and supplementary rates were abolished.

Within this framework, however, the electorate was still relatively weak. For instance, the link between rates and services was difficult to discern because of the considerable variations in rate demands from year to year, caused by changes in grant distribution, penalties, targets and balances.[116] The Government in fact acknowledged the deficiencies of the submarket and proposed changes; these included a statutory duty on authorities to consult representatives of non-domestic ratepayers before setting their rates, and a requirement to provide a separate statement to each ratepayer annually.[117] However, these had not been introduced by the end of the period under study.

2.2.4 Summary

During the period the Government gained power in the planning process through a more unilateral style of grant and expenditure plan determination and the advent of cash planning. This was complemented by firm cash limit control of grant, a block grant which reduced the incentives to spend, and penalties for infringing expenditure targets. The Government was therefore more able to enforce tough financial restrictions reflecting the need to counter inflation, reduce public spending, and increase efficiency.

Meantime, local authorities raised rate finance to ease the ability to pay before FY 1982-83 because they enjoyed a powerful position relative to the electorate, and because spending targets were in volume terms. Thereafter, cash expenditure targets reduced this source of flexibility; although not absolutely bound by the targets, the majority of authorities chose to acquiesce, partly out of political goodwill and partly due to the penalties.

3. Public Corporations

3.1 The financial context

As in the public services, the public corporations saw a more restrictive financial environment from 1979-80 onwards. At the same time, all things considered, public corporations fared better than central and local government, albeit with a significant diversity of experience.

The increased stringency, and the pattern, of the financial constraints reflected the pay restraint policy as well as other financial exigencies. External finance was limited by successively tougher EFLs, in part due to the pay policy, while the growth of internal finance was curbed by dips in output in recessionary years and by progressively lower price increases. Relatively low labour-total cost ratios alleviated some of the pressures on pay budgets. This section explains how these various influences accounted for the overall financial constraints. Before examining the contribution of pay restraint policy and other factors, however, the severity of the constraints is examined.

3.1.1 Overall financial context

The financial context of pay bargaining in the public corporations became more restrictive, as in the public services, in that total finance from external and internal sources combined generally grew at a slower and slower rate over the period FY 1979-83 in nominal terms.

This trend is illustrated in Table 6.5. The figures are calculated from totals of external finance outturns and internal income (which mainly constituted sales revenue). Two points should be noted about the method of calculation. First, while the sectoral coverage narrowed as industries were privatised, the percentage changes relate to matched populations: the percentage declines are not a function of a smaller public sector coverage. Second, there may be slight inaccuracies in the transport sector figures because the internal finance data relate to calendar years in most cases, rather than government financial years. The broad trends are very unlikely to be affected, however.

Financial year beginning Sector	1979	1980	1981	1982	1979-82 Compounded
Energy & Utilities	21.32	15.97	21.11	8.00	84.03
Communications	19.49	12.46	19.30	12.09	79.70
Transport	17.52	10.89	6.79	-2.17	36.15
Manufacturing	-4.37	10.56	3.86	-5.89	3.34
All public corporations	15.34	13.57	13.79	4.09	55.15

Table 6.5: Nominal growth of public corporation finance FY 1979-83

Notes: See text.

Sources: Derived from Annual Reports of Corporations, 1978-83;
Various Public Expenditure White Papers, 1979-84.

The table makes plain that the nominal growth rate of total finance slowed slightly in FY 1980-81 and 1981-82 compared with FY 1979-80, and decreased significantly in FY 1982-83. At a disaggregated level, the trend was more equivocal, as might be expected when looking at more narrowly-defined trading sectors. Mainly, as the aggregate figures hint, FY 1981-82 saw a resurgence in the growth rate of finance, before the decline continued.

The sectoral differences in financial growth were pronounced. In each year, (apart from FY 1982-83), energy and utility industries, (especially BGC), experienced faster growth than other sectors, closely followed by communications. Transport fared more poorly, in part due to significant declines in NFC finance in the first two years, and smaller declines in the latter two years in BAB and in the last year in BRB. Manufacturing, predominantly comprising BSC and BS, suffered the slowest growth.

The constraints from the slower nominal growth of finance were reinforced by there being little or no real growth in most years for the public corporations as a whole. This was not dissimilar to the situation in the public services. As Table 6.6 illustrates, this is likely to have made the diminishing nominal financial growth rate harder to deal with. The real growth figures are simply the nominal rates deflated by appropriate price indices. Except for FY 1981-82, each year saw slight falls in the real growth of finance. As the compound real growth figures in the last column indicate, the hierarchy of sectors for the period as a whole was as in nominal terms. Transport, and especially

Financial year beginning Sector	1979	1980	1981	1982	1979-82 Compounded
Energy and utilities	3.55	0.48	8.43	1.07	14.03
Communications	1.99	-2.56	6.80	4.90	11.43
Transport	3.76	-6.89	-4.18	-9.74	-16.44
Manufacturing	-18.37	-4.20	-7.02	-11.93	-35.96
All public corporations	-0.87	-2.25	+1.92	-2.88	-4.08

Table 6.6: Percentage real growth of public corporation finance, FY 1979-83

Notes: See text.

Sources: As for Table 6.5

Financial year beginning Sector	1979	1980	1981	1982	1979-82 Compounded
Energy and utilities	3.55	0.48	8.43	1.07	14.03
Communications	1.99	-2.56	6.80	4.90	11.43
Transport	3.76	-6.89	-4.18	-9.74	-16.44
Manufacturing	-18.37	-4.20	-7.02	-11.93	-35.96
All public corporations	-0.87	-2.25	+1.92	-2.88	-4.08

Table 6.6: Percentage real growth of public corporation finance, FY 1979-83

Notes: See text.

Sources: As for Table 6.5

manufacturing, saw significant real reductions, while energy and utilities and communications prospered, feeling the pressures of a falling nominal growth rate much less.

Authorities appeared to be genuinely constrained by the nominal and real growth of finance. Statistical data provide circumstantial evidence, while qualitative data directly corroborate the contention.

First, corporations were much closer to the external finance constraints (EFLs) during the period under study than in the years preceding it. This probably indicates the wider financial context was tougher, particularly as a number of corporations had been attempting to reduce their reliance on government-sanctioned finance permitted by the EFLs; it is unlikely that the data imply a conscious choice to use external finance as much as possible, independent of the severity of the financial situation.

Table 6.7 uses four criteria to illustrate the stringency of the constraints. For those with positive EFLs, that is those able to receive external finance, the table records the number of authorities overspending the final EFL, and those spending between 90 and 100 per cent of the EFL. For those with negative EFLs, the criteria are the number failing to achieve the required repayments, and the number achieving 100 to 110 per cent of them. The total number of authorities meeting these criteria relative to the total number of corporations each year is the statistic of major interest. The figures demonstrate that the percentage of corporations close to the EFLs was appreciably greater in FY 1979-82 than in the previous year, with most authorities apparently constrained. FY 1982-83 saw fewer authorities tightly constrained.

Financial year beginning	1978	1979	1980	1981	1982
Number of corporations					
1. overspending positive EFL	2	0	1	4	1
2. using 90-100% of positive EFL	4	13	8	5	3
3. failing to meet negative EFL	0	1	2	2	1
4. achieving 100-110% of negative EFL	0	1	1	0	0
Total (1-4)	6	15	12	11	5
Percentage of all corporations	35.3	88.2	75.0	64.7	31.3

Table 6.7: Indicators of degree of stringency of EFL constraints on public corporations, FY 1979-83

Source: Derived from Public Expenditure White Papers.

Second, otner evidence from public corporations and the Treasury lend support to the thesis of stringent financial restrictions. The Treasury calculated that in FY 1980-81, even after internal finance had been increased, authorities were so constrained that they had to defer £440 m. in payments, reduce current spending by £375 m., cut investment by £200 m., and make other economies of £165 m.[118] The Nationalised Industries' Chairmen's Group (NICG) also catalogued a number of instances where investment had to be curtailed due to financial constraints. For example, six authorities, including ESI, BGC, BT, PO, and BR, suffered a shortfall in investment funds of £470 m. that would have been put into projects in FY 1981-82 or over the medium term.[119] Later, the constraints were to force the NCB to accelerate pit closures, resulting in the year-long miners' strike.

Offsetting these exigencies somewhat, the public corporations were able to substitute between heads of expenditure in favour of pay more easily than in the public services, where pay was already the greater part of budgets or cash blocks.

Overall, therefore, the growth of total public corporation finance was comparable to that of the public services. A reduction in nominal growth was seen, within the context of declining real resources on the average. There was much more differentiation between public corporations than in the public services, however, and greater opportunity for internal budgetary flexibility.

3.1.2 External finance

Constraints on the availability of external finance, including the provisions under the pay policy, played a significant role in the diminution of the rate of increase in nominal total finance, even though external finance was on average less than 10 per cent of the total. However, external finance was not the prime cause of the hardship experienced by corporations in real terms. Towards the end of the period, external financial constraints certainly contributed to the lack of real growth of total finance, but until then they actually facilitated higher real growth than would have otherwise been possible.

Statistics bear this out. Table 6.8 makes an attempt to identify the constraints set by Government on external finance. The indicator employed is the percentage increase in the sum of the final EFLs in each sector (or actual external finance where the EFL was overspent) over the previous year's outturn. This is in contrast to the preceding tables, which embodied the extent to which the financial opportunities were used.

While the sectoral figures, particularly for communications and manufacturing, are somewhat erratic, the general trend, and the broad trend in energy and utilities and transport, was towards slower and ultimately negative nominal growth. As the final column indicates, the familiar sectoral differences were evident in the availability of external finance, although communications saw faster growth than did energy and utility corporations.

A comparison of the aggregate changes with the rate of price increase demonstrates that, overall, the external financial constraints did not appear to imply real external finance reductions until FY 1982-83. At a disaggregated level, however, external financial restrictions did contribute t the real decline in total finance of manufacturing and transport corporations over a longer period.

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Financial Year beginning Sector	1979	1980	1981	1982	1979-82
Energy and utilities	431.30	58.38	67.05	-18.27	43.39
Communications	333.33	-45.42	459.82	31.80	187.80
Transport	30.09	24.71	1.84	-10.90	8.81
Manufacturing	9.38	60.25	-29.10	-24.01	-0.46
All public corporations	64.65	26.67	19.94	-13.72	17.92
Retail Price Index Increase	17.16	15.41	11.70	6.85	

Table 6.8: Percentage nominal growth in final EFLs (including overspending) over outturn of previous year, FY 1979-83

Sources: Derived from Public Expenditure White Papers.

It is worth noting that beneath this apparent laxity lay originally much more stringent constraints which had to be relaxed in the face of deteriorating trends in internal finance. Table 6.9 shows the change in the initial EFL as stated in the Financial Statement and Budget Report (FSBR) relative to the previous year's outturn. Clearly, the reduction in annual growth rates involved much smaller nominal and real increases than were eventually permitted. The initial growth provisions were the result of the pay restraint policy and the assumptions regarding prices, internal finance, and the appropriate volume of expenditure that should be externally financed.

As stated in Chapter 4, the pay restraint policy assumptions for public corporations were not generally publicised. However, patchy evidence indicates that the assumptions were usually conservative. In particular, according to the Treasury, in FY 1979-80 the 5 per cent assumption dating from the original Phase 4 policy was vastly below the actual growth in pay costs of 17 per cent.[120] In FY 1980-81, too, the assumptions were restrictive. Sponsoring departments sent out letters to nationalised industry chairmen in the autumn of 1979, urging them to bid for funds for FY 1980-81 on the assumption that pay rises would be well below the current rate of inflation of 17.5 per cent; it was hoped that pay bargaining would consider expected price increases, rather than past increases.[121]

Parenthetically, it should be said that once more this picture was not uniform across authorities. It appeared that, particularly in the earlier part of the period under investigation, there was significant differentiation. Notably, in FY 1980-81 BSC's EFL afforded only 'the most modest of pay increases', which contrasted with the NCB, which was given a pay increase assumption of 20 per cent.[122]

Financial year beginning Sector	1979	1980	1981	1982	1979-82
Energy and utilities	153.04	48.52	-42.67	-17.19	-2.60
Communications	-52.78	-72.92	275.00	31.80	+57.97
Transport	30.09	11.13	-7.04	-8.08	+3.25
Manufacturing	9.38	-30.06	-31.89	-47.92	-25.61
All public corporations	26.38	-2.36	-15.64	-19.29	-6.95
Retail Price Index increase	17.16	15.41	11.70	6.85	

Table 6.9: Percentage nominal growth in initial EFLs over outturn of previous year, FY 1979-83

Source: Derived from Public Expenditure White Papers.

The pay assumption constraints were reinforced by the implicit assumptions regarding non-pay cost inflation and the growth of product revenue. First, the allowances for non-labor cost increases were inadequate. The deficiency was especially vast in FY 1979-80 when the public corporations were generally working with 10 per cent allowances against cost increases in practice of 17 or 18 per cent on average.[123] For example, BAA received 12 per cent against an outturn of 20 per cent.[124] FY 1980-81 also saw significant underestimates, according to the Treasury.[125]

Second, the extent to which internal finance was to rise was overestimated. This caused particular hardship in FY 1980-81, for which GDP growth of up to 2 per cent had been assumed, but when in fact GDP declined 2.7 per cent. Internal resources were thereby reduced by approximately £1.3b.[126] In a similar way, the recession hit industry finances in FY 1981-82. As early as the time of the EFL announcement, it was acknowledged by the Government that economies of £0.8b would be necessary.[127]

Quite independently of the cost inflation and output assumptions, pressure on finance also emanated from planned reductions in the extent to which corporations were permitted to raise external funds. It was intended that year by year authorities in the aggregate would progressively move towards a position where net repayments would be made. As the 1980 Public Expenditure White Paper put it:

> this improvement reflects the Government's determination that the industries' investment should be strictly appraised, that their efficiency should be increased and that steps should be taken to phase out underpricing.[128]

In that White Paper it was planned that net repayments would begin in FY 1983-84, external financing having reached £2300 m. in FY 1979-80.[129] The following year, the plans were put back slightly, but still FY 1983-84 was expected to see provisions of only £50 m. in external finance.[130] By the

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In that White Paper it was planned that net repayments would begin in FY 1983-84, external financing having reached £2300 m. in FY 1979-80.[129] The following year, the plans were put back slightly, but still FY 1983-84 was expected to see provisions of only £50 m. in external finance.[130] By the time of the 1982 White Paper it was realised that as much as £2.6b would probably be required in external finance in FY 1983-84; even so, this entailed a reduction in external funding.[131] Thus, while the planned cuts in external finance did not fully materialise due to the recession's effect on internal finance, there were persistent efforts to reduce it.

The initial EFLs were modified during the financial year and at its end to take account of financial realities. Through this, significant additions to external finance were made. Table 6.10 shows the net addition to initial EFLs each year and over the whole period FY 1979-83. Overall, the net increases to the public corporations were generally substantial, being approximately one-quarter in FY 1979-82; only FY 1982-83 saw net reductions in EFLs, once set.

The additions to external finance broadly reaffirmed the ranking of authorities that was seen in the growth of initial nominal EFLs, with the exception of manufacturing which fared relatively better than previously, due to the FY 1980-81 revision. Communications, especially BT, experienced relatively large increases, raising their original EFL by nearly one-half over the period. Energy and utilities, and manufacturing, received average increases, while transport was rarely given any extra funds.

Overspending tempered the force of the initial nominal growth constraints too, but to a lesser extent. Only in FY 1981-82 was overspending large, as Table 6.11 shows. Significant overspending generally only occurred once in each sector during the period. Energy and utility corporations accounted for most overspending, followed by communications, manufacturing, and finally, again, transport.

Financial Year beginning	1979	1980	1981	1982	1979-82
Sector					
Energy and utilities	278.26	--	88.35	-20.22	20.47
Communications	277.78	-307.69	105.61	--	45.39
Transport	--	11.25	4.56	-0.99	3.82
Manufacturing	--	129.12	--	2.07	25.65
All public corporations	23.50	26.29	23.14	-6.44	15.80

Table 6.10: Percentage net additions to the EFLs of public corporations, FY 1979-83

Source: Deduced from Public Expenditure White Papers.

To summarise, external finance accounted for much of the downward trend in nominal financial growth in public corporations due to the pay restraint policy, and the inflation and revenue assumptions used in EFL calculations, but revisions and overspending meant that, at least until FY 1982-83, external finance in total did not impose real constraints on finance.

3.1.3 Internal finance

Revenue increases softened the implications of rapidly declining external financial growth, but nevertheless preserved the de-escalative effect of pay restraint. Table 6.12 shows that the nominal growth rate in internal finance actually rose slightly during FY 1979-82, before declining in FY 1982-83. While the disaggregated picture reveals much variation, it is evident that, at various times, each sector saw internal revenue increase and offset some of the effects of the decreasing trend in external finance.

While moderating the downward trend, internal finance severely constrained overall real financial growth, reinforcing the real implications of the pay restraint policy. Table 6.13 shows that in real terms revenue declined in FY 1979-81, causing real total finance to decrease too. Real internal finance grew by only small amounts in the following two years, contributing to overall financial growth in FY 1981-82, but failing to prevent a large fall in FY 1982-83.

Over the period as a whole at a sectoral level, great differences were apparent. The authorities under greatest external financial pressure were also under the most internal financial pressure, as the last columns of Table 6.12 and 6.13 indicate. Transport and manufacturing saw significant real cuts in internal finance, while energy and utility authorities and, especially, communications appeared to suffer relatively few real constraints.

Financial Year beginning	1979	1980	1981	1982	1979-82
Energy and utilities	1.74	6.64	130.80	--	24.04
Communications	--	40.00	18.37	--	12.76
Transport	--	0.97	5.00	0.45	1.67
Manufacturing	--	--	--	45.90	7.45
All Public Corporations	0.09	3.44	23.14	7.90	9.03

Table 6.11: Overspending as a percentage of final EFLs in public corporations, FY 1978-83

Source: Deduced from Public Expenditure White Papers

Financial Year beginning Sector	1979	1980	1981	1982	1979-82
Energy and utilities	18.07	15.21	19.31	9.79	78.18
Communications	12.43	19.82	13.31	25.34	91.32
Transport	15.64	9.12	8.34	2.92	40.70
Manufacturing	-1.20	18.58	15.27	-1.97	32.39
All public corporations	13.28	13.59	15.78	9.15	62.61

Table 6.12: Percentage nominal growth in revenue of public corporations, FY 1979-83

Source: Derived from Annual Reports of public corporations.

Financial year beginning Sector	1979	1980	1981	1982	1979-82
Energy and utilities	0.77	-0.17	6.82	2.75	10.42
Communications	-4.04	3.82	1.44	18.49	19.75
Transport	2.10	-8.37	-2.79	-4.05	-12.74
Manufacturing	-15.67	2.75	3.20	-8.25	-17.76
All public corporations	-2.65	-2.34	3.70	1.84	0.40

Table 6.13: Percentage real growth in revenue of public corporations, FY 1979-83

Source: Derived from Annual Reports of public corporations.

Underlying the buoyant nominal, but restrictive real, revenue trends were price increases and product demand changes. Generally speaking, rises in price were close to the Retail Price Index (RPI). As a result, in most authorities, price increases followed a decreasing trend, encouraging nominal financial growth to fall and real finance to stabilise. Three other dimensions of pricing behaviour modified this picture, with important implications for nominal and real internal finance.

First, the electricity and gas corporations were required by the Government to price their output at higher levels than they would otherwise have charged, in order to establish relative price levels between different energy sources that were deemed appropriate for economic reasons. Gas price increases were therefore increased by an extra ten per cent each year for three years, beginning October 1980, while electricity prices were raised by an additional 5 per cent.[132] This had the effect of bolstering revenue growth in FY 1980-83, in spite of a falling RPI and economic recession

Second, towards the end of the period a few authorities adopted policies which sought to freeze prices. For example, the SSEB froze prices in FY 1982-83 (as did the whole electricity supply industry in FY 1983-84).[133] The PO did likewise. This accentuated the reduction in public corporation inflation and revenue growth in FY 1982-83.

Third, certain corporations followed their markets rather than the RPI. For example, BS, BSC and BAB, with an eye to the competition, frequently raised price only slightly, and in some cases actually cut price. Thus BS complained of 'weak pricing' in its markets, while BSC was conscious of the need to minimise price rises until the European steelmakers could agree to fix prices.[134] Also the NCB was anxious not to lose domestic business to cheap foreign suppliers, such as from Australia.[135] Domestic transport markets also saw careful pricing. For instance, BRB offered several discount schemes aimed at particular demographic groups, such as pensioners and students, and on certain routes at certain off-peak times.[136] Such policies curbed price increases and helped to keep revenue growth down, often making it negative.

Taken together, these pricing policies also indicate some proximate reasons why particular authorities saw greater revenue growth than others. In particular, it is possible to understand the immediate reason why the energy and utility sector saw appreciable increases, while transport and manufacturing industries did not.

Contemporaneously, downward product demand trends added to the tightening of internal financial constraints. Although the growth of internal revenue rose slightly for a time, it was restrained by reductions in sales volume year by year after FY 1979-80. Also, the lower sales levels necessarily implied significant real constraints, other things equal. Table 6.14 shows the extent of the changes in sales volumes for public corporations for which data are available. As can be seen, output declined after 1979-80, and was nearly eight per cent lower at the end of the period than at the beginning of FY 1979-80. FY 1980-81 saw the greatest average reduction, with 10 of the 12 industries experiencing decreases in sales. The following two years saw smaller volume reductions, but still eight industries (out of a total of 11 and 10 respectively) failed to increase sales.

All major sectors, bar communications, suffered volume reductions over the period as a whole and hence found budgets pressured from this source. Once again, energy and utility corporations were hurt less than transport, and manufacturing declined by far the most. There was much variation within sectors, however.

Financial year beginning		1979	1980	1981	1982	1979-82
Industry	Indicator					
Energy and utilities	(average)	2.8	-3.5	-0.5	-5.3	-6.5
NCB	disposals (m.t.)	8.1	-6.4	2.6	0.3	4.1
ESI	GWH sales	-0.2	-4.1	-0.1	-1.7	-6.0
NSHB	units sold	2.0	-2.8	-7.1	-17.6	-24.1
SSEB	units sold	-0.8	-2.1	-1.1	-2.3	-6.2
BGC	m. therms	5.0	-2.1	3.0	n.a.	n.a.
Communications						
PO	letters posted	5.4	1.0	-1.0	-1.0	4.3
Transport	(average)	2.8	-5.4	-5.9	-0.7	-9.1
BAB	revenue passenger km.	22.2	15.9	-4.9	-3.9	29.4
BRB	passenger miles	4.2	-1.0	-3.0	5.0	5.1
BWB	tonne/km. traffic	-1.5	-7.4	-7.3	-1.2	-16.5
NFC	vehicle mileage	-9.5	-27.0	n.a.	n.a.	n.a.
NBC	passenger journeys	-1.3	-7.3	-8.4	-2.8	-18.5
Manufacturing						
BSC	deliveries (m.t.)	-16.0	-9.5	12.6	-13.1	-25.6
Unweighted average		1.5	-4.4	-1.3	-3.8	-7.9

Table 6.14: Percentage sales volume growth indicators for selected public corporations, FY 1979-83

Source: Annual Reports of corporations.

3.1.4 Allocation of the budget

The flexibility within public corporations' total budgets was facilitated by the generally low ratio of labour to total costs. With ratios of between approximately 15 and 60 per cent, there was clearly scope for increasing pay expenditure at the expense of non-pay expenditure. The financial constraints duly had less severe implications for pay in the capital-intensive utility and manufacturing industries and BT, while transport, the NCB and the PO avoided the strictures to a lesser extent.

3.1.5 Summary

The financial context of public corporation pay bargaining was therefore characterised by a de-escalation in the increase of monetary funds available for all spending purposes. The constraints appeared to bite, with real financial growth generally being negative. The relatively low ratio of labour to total costs reduced the stringency on pay budgets, however, and yielded more flexibility to the average authority than in the public services.

The reduced nominal growth of budgets can be accounted for in terms of the pay restraint policy, supplemented by the price and revenue assumptions, which progressively tightened the EFLs; and by lower product prices combined with falling output. The real reductions in finance reflected the inability or unwillingness in some sectors to raise prices as much as the RPI, together with the widespread sales reductions. External finance, after offsetting these forces in the early period, added to them in FY 1982-83.

The public corporations sector was highly differentiated. It appears that most of the financial factors bearing on external and internal finance - from pay restraint policy and other EFL assumptions to product price and sales - acted in unison to make the energy and utility industries and communications relatively free from significant constraints, and to make transport and, especially, manufacturing face more severe limitations.

3.2 The economic-political market environment

The tougher financial environment in which public corporations operated after 1979 was the joint product of the structure of, and trends in, political and economic markets. The government-industry political submarket directly retarded the growth of external finance, and, more indirectly, influenced the availability of internal finance and its allocation among budget heads. The industry political submarket affected internal financial growth too, but to a lesser extent. Economic markets, meanwhile, had a direct restraining impact on sales revenue. This section explains precisely how the political and economic markets produced these constraints.

3.2.1 The political market environment

It will be recalled that 'political' financial constraints as opposed to economic financial constraints, emanate from two segments of the political market: the government-industry submarket, including all parties influencing the government's policy toward public corporations; and the industry submarket, covering the corporations and other bodies interacting with them directly rather than through the government. The role of each submarket in financial restraint is considered in turn.

The government-industry political submarket

External finance

The reduction in the growth of final external financial constraints reflected, first, the strong political market position of the Government, which, if anything, became more dominant after 1979, and, second, the attitudes of the Conservatives towards pay restraint policy and expenditure control. These structural and attitudinal characteristics were apparent in both the planning and control of external finance.

The planning of external finance

As in 1979, the primary participants in external finance decisions, including the assumptions concerning pay and other items, were the Government and the corporations themselves. The distribution of responsibility for determining EFLs remained unchanged: the Government had the ultimate authority, but allowed consultation rights to corporations when their bids for government-sanctioned finance were discussed.[137]

Although the distribution of responsibility did not change, the power of the Government in fact increased due to changes in the timetable for setting EFLs. Before FY 1981-82, the limits were not agreed until mid- to late-November, by which time many authorities had already fixed their budgets: Government decisions were therefore likely to reflect those budgets. However, from that year tne schedule was brought forward so that EFLs were determined in early October, often before budgeting exercises, affording the Government a greater opportunity to establish EFLs at levels it wished. Earlier discussions may also have increased the probability of the inflation provision being understated, since authorities were known to have more time to react and compensate.[138]

Other parties - unions, the Nationalised Industries' Chairmen's Group

(NICG), and Parliament - tried to increase their political market influence, but to little avail. The unions, who had not persuaded the Labour Government to plan relaxed EFLs for FY 1979-80 in the face of the breakdown of Phase 4, fared no better with the new Conservative Government. Representations were made to Ministers by individual unions, and by the TUC through meetings under the auspices of the National Economic Development Council and TUC industry committees. Also, a new union pressure group, the Triple Alliance of the NUM, NUR and the ISTC, put the collective case for the rail, steel and mining industries. Although active in campaigning for more liberal external funding, the unions were generally not allowed any significant role in decision-making.

It is true that the NUM was involved in discussions with the Government and the NCB in 1980 over the implications of EFLs for pit closures, following a strike in the South Wales coalfield and a threat of a country-wide strike ballot of miners. It is also the case that the outcome was a substantially increased EFL for FY 1981-82 and the withdrawal of the programme of accelerated pit closures.[139] However, this was very much an isolated incident, and was not to be repeated even when the issue of accelerated pit closures resurfaced at the end of the period under study.

The NICG came to have a high profile in the political market, representing the views of nationalised industries as a whole to Ministers.[140] In spite of the group's visibility, it had little real power. The Government listened to its suggestions, and, indeed, made minor changes in the method of financial control in response,[141] but ignored its attempts to influence the planning of finance through the argument that key, approved, investment projects had been held back due to insufficient funding.[142]

It should also be mentioned that, at the same time, the CBI was active in the political market, urging the curbing of public sector funding,[143] but there is no evidence that this significantly affected the Government's thinking. The Government maintained its independence in decision-making. In any case, it was already of the same opinion.

Finally, Parliament continued to have a marginal impact. EFLs were announced as part of the Autumn Statement by the Chancellor, and were debated. However, the familiar problems of debates being very general, and voting on the Statements being along party lines, persisted. Also, EFLs were often changed subsequently, only being <u>announced</u> in Parliament.[144] At the end of the period being studied, and too late to have any impact, the Select Committee on Procedure (Finance) proposed that the EFL total be subject to approval in Parliament on an amendable motion.[145]

The Supply expenditure element in external finance - that is, the finance which is not borrowed by corporations, mainly grants to the NCB and BRB - was, of course, subject to the same procedures as in the public services. But, as noted in that context, even with procedural reform in FY 1982-83, Parliament still had little power.

Given that the Government dominated the government-industry political submarket, it was the attitudes of the Conservatives that lay behind the plans for progressively stricter access to external finance, as embodied in EFLs set at the beginning of the year. The aggressive approach to pay restraint and the fiscally conservative stance of the Government in consulting with authorities are ably illustrated by two examples from the period. First, in September 1979 the chairman of BSC, Sir Charles Villiers, warned the Industry Secretary, Sir Keith Joseph, that meagre EFLs made a strike over pay increases likely. Joseph merely 'took note'.[146] A strike duly occurred a few months later. Second, in November 1981 the BRB was forced to submit a revised grant claim for FY 1981-82 in the face of the deepening recession which was reducing internal finance. Although accepted, it was expected that the claim for FY 1982-83 would 'demonstrate that firm action has been taken on unit costs, which have been rising, and on service levels in the light of the change in demand'. When BRB requested a real increase in grant of £60 m, (approximately 7 per cent) the following year, it was rejected. Instead, the grant was reduced in real terms.[147] Such examples are profuse. For example, for FY 1982-83 the nationalised industries' total bids for increased finance amounted to around £2-1/2 billion, in addition to nearly £1-1/2 billion already included in the earlier plans. In the event, only an additional £1.3 billion of the bids were accepted and included in the EFLs at the start of the year.[148]

The rationales for dealing with corporations in this way can be found in the Government's attitudes towards inflation and public expenditure. Essentially, there was concern that higher spending by nationalised industries would either crowd-out productive private sector investment or contribute to inflation, or both. As the Treasury asserted,

> Any increase in public expenditure, either current or capital, by government or by nationalised industries, would, if financed in such a way as to avoid an increase in the money supply, involve some reduction in private expenditure, through the operation of market forces. There would be some increase in interest rates or in the exchange rate, or some combination of both...the scale of these effects is very uncertain, but it is unlikely that such crowding-out would be 100 per cent. But if there were some net increase in expenditure, there would be some increase in inflationary pressures. Hence it is necessary to avoid both any "crowding-out" effect and higher inflationary pressures by offsetting any increases in capital expenditure by nationalised industries by reductions in current expenditure.[149]

The differences in external financial constraints between corporations did not only appear to reflect economic constraints, such as industry growth prospects, investment requirements, and inescapable deficiencies in internal finance, but also a pragmatic posture on the part of the Government in recognition of the power of the unions in each industry to mount damaging industrial action. It was certainly this which led tne Government to establish a more generous initial EFL for the NCB in FY 1981-82, as explained earlier. The deteriorating steel market probably also figured in Sir Keith Joseph's low pay inflation assumption for BSC cited above, and his reluctance to change the EFL even under pressure: he did not seem to believe that there would be strike action, or if there was, that it would have significant economic consequences.

The control of external finance

The Government also retained its strong position in the political process of controlling external finance to within the EFLs. If EFL revisions were to be made or overspending was to occur, it could only happen with the acquiescence of the Government.

As in 1979, all external finance was provided by or through the Government. (It is true that some authorities raised finance through the sale of shares during the period as part of the privatisation programme, but in doing so they removed themselves from the public sector.)[150] External finance was completely subject to EFLs. Aiding control, each corporation had a separate EFL.

The rules of the EFL system remained largely intact.[151] Authorities could not expect to obtain relaxed EFLs automatically. It was required that offsetting measures be taken, such as price increases or offsetting economies, before a revision of EFLs could be countenanced.

One change was made to the rules, but it did not amount to a significant loss of control. Following NICG representations, the Government agreed to allow some end-of-year flexibility with effect from FY 1981-82. Extra borrowing of one per cent of forecast turnover and fixed investment expenditure was permitted.[152] Control was not lost for several reasons. One, the amounts concerned were comparatively small. Two, the amount had to be deducted from the EFL for the following year. Three, there was an explicit assumption that the flexibility would be used to avoid disruption arising from short-term factors, such as the timing of payments, rather than wage increases with long-term implications. Finally, the flexibility was subject to clearance by Departments.

Supporting the official rules, periodic returns continued to be made to the sponsoring department and the Treasury as part of the monitoring process. During the 1979-83 period, the Government's position in this respect was strengthened. Partly it was the result of a 1981 review of the monitoring process, which led to organisational changes to improve the monitoring capabilities of the Departments and the Treasury.[153] Partly, also, the process was generally more effective due to greater experience of managing EFLs.

As a result of the political market structure pertaining to the control of finance, only the Government's attitudes were relevant. Since there were many revisions to EFLs and a degree of overspending, it might be thought that the Government was not wholeheartedly behind the reduction of inflation and public spending. However, this would be a misreading of the situation. The Government relaxed the EFL constraints due to the largely unavoidable effects of recession on internal finance, which was quite within the rules of EFL operation. The pay restraint policy was strictly adhered to. It was not a case of accommodating the profligacy of public corporations. In practice, the Government required that authorities in difficulties exhausted all internal options before consenting to change the EFL. For instance, in FY 1980-81, costs grew faster than expected, output less than assumed, causing a deterioration of £1.3 billion in the internal resources of corporations. The Government was only prepared to offset 40 per cent of this.[154] Hence the magnitude of the relaxation of EFLs should be interpreted as demonstrating the toughness of the Government, rather than its weakness.

Internal finance

While the Government was using its dominant position in the government-industry political submarket to de-escalate the growth of external finance, it used its existing powers, as well as some new powers, to suppress the growth of internal finance and thereby reinforce the pressures on pay determination. This contrasts with the mid-1979 situation when the Labour Government possessed many of the same options but chose not to use them to control internal revenue, even after the breakdown of the counter-inflationary policy.

Nevertheless, the political market structure continued to be characterised by a role for the Government that was less dominating than in the public services, due to the arm's-length nature of government-industry relationships. The Government had no power to control revenue or price directly. Indeed, it abolished the Price Commission with the Competition Act of 1980.[155] Instead, as before, the Government's influence was indirect, relying on powers that were primarily intended to regulate other aspects of corporation behaviour.

One of the most influential political market mechanisms used by the Conservative Government to control internal finance was its power to legislate economic market structure. A series of pieces of legislation was passed, liberalising competition in various product markets, especially in the transport sector, but also in the energy, utility and communications industries. The intention was, inter alia, to keep prices down.

In transport, the 1980 Transport Act relaxed the licensing of long-distance coach services. As a result, competition grew, so that by the end of the period, over 100 new express coach services had been started.[156] The NBC and BRB were obliged to price more competitively. The 1980 Civil Aviation Act, meanwhile, liberalised air transport licensing, creating more competition for BAB.[157] The Government also succeeded in increasing access to routes, such as the London-Hong Kong route, which was opened to private carriers. Greater competition in the Western European market was also sought.[158]

Elsewhere, changes in market structure were introduced, but were less far-reaching. In the communications sector, competition was increased in three ways. First, BT was split off from the PO by the British Telecommunications Act 1981, so that the postal service and the telephone industry competed with each other. Second, the Government used its powers under the 1953 Post Office Act to relax the PO's monopoly over time-sensitive mail and Christmas cards with effect from November 1981. However, the revenue at risk was only one or two per cent of the total.[159] Third, in February 1982, a 25-year license was granted to Mercury, to compete with BT, but no real competition was expected for at least five years.[160] It should be said that while these changes were of comparatively minor importance during 1979-83, the Industry Secretary threatened to use his monopoly derogation powers further if the performance of the PO was inadequate.[161]

In the utilities sector, the Oil and Gas (Enterprise) Act 1982 abolished the BGC monopoly over the supply of gas: private companies were allowed to supply gas to industrial consumers using the BGC pipeline network.[162] The 1983 Energy Act removed restrictions on the supply and generation of electricity by private companies.[163] However, these measures did not have significant implications in the period.

Of more widespread importance was the Government's use of performance targets in a manner that controlled finances more closely than hitherto. Although notionally the targets were jointly determined with authorities, in practice in 1979-83 the Government was dominant in the process. It adopted tougher attitudes, mainly to ensure financial targets were not met by reducing services or raising prices.[164] First, it required most authorities, rather than a selection, to establish targets.

Second, the primary concern was no longer with service levels, but with economic indicators, such as price and cost trends, which had greater implications for revenue. For example, the PO was set the target of keeping price increases below the RPI over the period 1978-79 to 1982-83.[165] Towards the end of the period BT was given a target price increase below the RPI, to be achieved over a five year period.[166] In these cases, prices were directly influenced. More common, however, was the establishment of targets in terms of real unit costs, which indirectly reduced the need for greater finance. For instance, BGC was asked to reduce the real net trading costs per therm of gas sold by five per cent between 1980-81 and 1982-83.[167]

Third, the Government was a tough negotiator and set stringent targets. For example, the BRB target was set only just within the limits that the Chairman believed achievable.[168] Another illustration is the fact that during the period some targets were renegotiated so as to be more restricting. For instance, the PO had been aiming to keep real unit costs stable between 1977-78 and 1982-83, but was then told to reduce real unit costs by 5 per cent between 1981-82 and 1984-85.[169] Similarly, the Energy Department wanted the Electricity Council to increase its target from a 3 per cent real unit cost reduction between 1982-83 and 1984-85 to a 4.25 per cent cut.[170]

Fourth, the monitoring process appeared more sophisticated. Instead of relying on public pressure upon publication of the annual reports, it became typical for quarterly departmental monitoring and dialogue to occur. Sometimes targets could not be achieved due to inescapable factors, such as volume reductions which increased unit costs in spite of economies having been made. However, in some cases of non-achievement, the Government adjusted future targets to oblige authorities to offset past performance: this was the case with the PO, for example.

The Government did not just use market structure and rules of conduct to prevent large price increases, it also used informal pressure and judicious Board appointments. Informal pressure - referred to by Sir Peter Parker as 'government by nudge and fudge' - was preferred to the use of directives.[171] Many more meetings were held between Chairmen of public corporations and Ministers under the Conservative Government than had been held under Labour. In the first 16 months of the Conservative's first term of office, Sir William Barlow met the Secretary of State 19 times and the Minister of State 12 times (excluding social gatherings), compared with 4 and 3 times respectively in 18 months under Labour.[172] Pricing policy was no doubt prominent given the public criticism of pricing by Ministers.

Board appointments were carefully made to make the nationalised industries more responsive to the Government's formal and informal instructions. This was made possible by a somewhat stronger Government position in the political market in this respect. First, the Government paid less heed to the advice of other interested groups. For instance, there was no consultation with the unions, although under Labour some had provided input.[173] Also, in the appointment of Water Authority Board members, local authority powers to make nominations were curtailed.[174] Second, the Government was more able to recruit who it wanted because it withdrew nationalised industry board members from the purview of the Top Salaries' Review Body, and paid market rates.[175]

The outstanding example of an appointment to ensure fiscally conservative policies were followed was, of course, Mr. Ian McGregor, the Chairman of BSC, and, later, the NCB. But in fact widespread changes in personnel occurred - 14 of 24 Chairmen being replaced between January 1978 and January 1981 - allowing the Government to install executives favourably disposed to the Conservatives' policy.[176] Apart from Chairmen, Board members were typically drawn from private sector business to a greater extent, often from finance or accounting functions. Many were part-timers, which had the effect of reducing the tendency of members to feel a 'client relationship' towards the industry, and of increasing their ability to take harsh financial decisions.[177]

These political market controls were already available to the Government at the beginning of the period. With the 1980 Competition Act they were complemented by yet another: the Monopolies and Mergers

Commission (MMC). The Secretary of State was empowered

> to refer nationalised industries and other public undertakings to the MMC for an investigation into their efficiency and costs and into any possible abuse by these public sector bodies of their monopoly power which might work adversely for the consumers.[178]

The MMC made a positive albeit limited contribution to revenue control in the period.[179] First, some investigations involved specific analyses of competition and pricing, and, increasingly, attention was directed at efficiency, management and control, and finance. The primary focus, however, was on quality of service, investment appraisal, and manpower and industrial relations. Second, the MMC reports of 1980-83 covered several public corporations, but at the same time, inquiries were not conducted in many others due to the scheduling problems which allowed only one investigation in each industry every four years. Third, the recommendations of the MMC appeared to be heeded, at least in part, by the corporations. This reflected positive corporation attitudes and close Departmental monitoring. For example, the Post Office accepted all but four of the MMC's 45 recommendations, and their implementation was encouraged by Departmental scrutiny and the setting of more ambitious performance targets.[180]

Not all the Government's actions in the political market retarded internal financial growth, however. Importantly, although financial targets constrained pay budgets by limiting the disbursement of finance, they actually increased the need to raise additional revenue, other things being equal. Using the powers it possessed in mid-1979, the Government adopted a more demanding posture, requiring more authorities to negotiate financial targets.[181] In some cases, such as electricity, the targets were imposed rather than negotiated.[182]

In fixing the targets the Government's policy was to increase the rate of return above previous levels. For example, the Yorkshire Electricity Board saw its target increased from 0.6 per cent on average net assets in FY 1979-80 to an average of 1.61 per cent for the three years FY 1980-81 to 1982-83.[183] Meanwhile the CEGB saw an increase from between 1 and 1.5 per cent to 1.8 per cent.[184] As a result, there was upward pressure on prices.

The effects of this attitude were reinforced by other policies. One was to increase the targets of BGC and the ESI so as to raise gas and electricity prices to economic levels. As indicated in the delineation of the financial constraints in the previous section, gas prices were 10 per cent greater than inflation each year for the three years FY 1980-81 to FY 1982-83 in order to achieve an average 9 per cent return on net assets employed, valued at current cost.[185] Meantime, the Electricity Council had to raise prices by 5 per cent more than inflation each of the three years so as to earn a 1.8 per cent return on average net assets.[186]

The switch to current cost definitions of financial targets also effectively increased prices. With costs stated at higher levels than historic costs, more revenue was needed to meet the targets. For example, the South Wales Electricity Board was obliged to raise tariffs by an extra 4.6 per cent upon adoption of current cost accounting.[187]

While the medium-term financial targets promoted higher prices, it should be said that this was limited somewhat by the frequent failure of corporations to meet the targets in a given year. This was partly due to economic market exigencies, and partly because the Government attached more importance to EFLs than to financial targets.[188] It was not so much a function of institutional deficiencies in monitoring and remedying the evolving situation.

Expenditure

Although most of the Government's attention was focused on restricting external and internal finance, it was also addressed to the allocation of finance between competing uses: the proportion available for pay purposes was not simply technologically determined, it was also influenced by the political market.

First, the financial targets pre-empted funds. In attempting to attain the targets, authorities had to withhold substantial sums of money from revenue. Second, since most authorities had targets cast in terms of real unit cost growth (or decline), performance targets put limits on the extent to which budgets could be increased simply to finance cost increases. Third, corporate plans agreed with the Government stated the levels of investment that had been approved. Industries and Government alike were reluctant to see investment curtailed in order to fund pay increases, although there is evidence that this occurred. In addition, commitments made historically in the political market added constraints. For example, the NCB was obliged to make payments to miners under the voluntary early retirement scheme, and cover other social costs. Taken together, these factors constrained pay budgets to a greater or lesser extent, depending on the political and technical context of the authority concerned.

The industry political submarket

In comparison with the government-industry submarket, the industry sub-market, containing the individual corporation together with bodies and organisations with which it interacted independently of government, was of relatively minor importance to the growth trends in internal finance and thus to the explanation of the overall financial constraints on corporations.

First, the nationalised industry consumer councils were weak. Being consultative, the machinery lacked real power because industries were free to reject recommendations. A Department of Trade report in 1982 indicated that the Government planned to give more guidance to make them more effective, and was considering the introduction of legislation.[189] However, little progress was made during the period under study. The Energy Act 1983 gave statutory status to the Electricity Consumer's Council, perhaps increasing its power, but it was too late to have consequences for the last pay round under investigation.

As a result of the strong political market position of the corporations, there were few noteworthy instances of consumer pressure preventing price increases. For example, following representations from the Domestic Coal Consumers' Council the November 1980 coal price increases were limited to modest levels, only partly covering cost increases.[190] Even here, the NCB was obliged to raise price by a further 8 per cent the next January in order to fund the new pay award.[191]

Secondly, in only a limited number of cases did public corporations interact with each other to produce agreements of a political nature relating to price and output that might not have been strictly justifiable on competitive grounds. The NCB secured agreements with the CEGB and BSC to make the coal market more secure in the face of rising imports of coal made economic by the strong pound and low-cost foreign producers. In October 1979 the CEGB agreed to a five-year understanding involving the supply of at least 75 million tonnes a year at prices linked to the RPI.[192] BSC agreed to limit coking coal imports to 4 million tonnes in 1980.[193] Through these agreements the NCB managed to stabilise its real revenues somewhat and avoid more austere internal financial constraints.

Meanwhile, BSC and European Community steel producers agreed a series of crisis measures through Eurofer. Essentially, a voluntary cartel established minimum prices and output quotas until it began to crumble in late 1980.[194] Quotas were established through the EEC from July 1981, and, at the end of December 1982, Guidance Prices were set at levels existing earlier in the year before a major decline in the market.[195] At the same time, the EEC attempted, on behalf of producers, to stem the flow of non-Community imports, but this was not successful in the depths of the recession.

3.2.2 The economic market environment

The retardation of the growth of internal finance, and the consequent supplementation of constraints imposed by pay policy and other external financial forces, were not just a product of politically-determined indirect constraints on price increases. They were also a consequence of economic influences on product market structure and demand trends. Also, the economic market environment, in conjunction with legislative influences on market structure, was largely responsible for the pattern of internal financial constraints across authorities.

Economic market structure

Finance was subject to more control during the 1979-83 period with the emergence of more competitive product market structures. Partly these arose due to the political decisions of the Conservative Government, especially in the transport sector, but competition also increased for other reasons. The sectors where the most significant changes occurred for non-political reasons were transport and manufacturing, where the market structure was not wholly determined by the Government, but was open to overseas competition.

In the manufacturing sector, BSC suffered greater competition due to the growth of supply from countries outside the U.S. and Europe. There was already vast overcapacity in the EEC itself. Hence when the cartel arrangements were weak, BSC was forced to price at low levels. Even then, BSC lost two-thirds of its export business because it found sales were unprofitable at ruling prices.[196] Meanwhile, BS too faced increased competition from the Third World, the Far East, and Japan. Notably, in spite of excess capacity in the merchant shipbuilding industry, there was a continued expansion of shipbuilding capacity in the Far East. The tactics used by such countries were extremely competitive, including dumping supplies on markets at less than cost. Far Eastern selling prices were admitted to be 15-20 per cent below costs, while EEC costs were about 35 per cent above Far Eastern prices in FY 1982-83.[197]

In the transport sector, the airline industry became more competitive independently of domestic political decisions. In particular, deregulation in the U.S. paved the way for more competition on transatlantic routes.[198] Fares were duly affected.

The differences in internal financial growth were partly due to the sectoral variations in market concentration. Other things equal, the energy and utilities and communications sectors, facing little competition, even after the structural changes of the period, were able to raise revenue relatively easily. The transport industries, as in 1979, had less market power than the utilities and communications corporations; and, by the end of the period, following airline deregulation and political decisions concerning market structure, they found their relative market power reduced further. Manufacturing remained the least monopolistic, economic forces having increased competition. For these reasons, the transport and manufacturing sectors found it relatively difficult to raise revenue.

Economic market trends

It will be recalled that internal financial growth was restrained by deteriorating sales trends, among other things. More competitive market structures may have been part of the cause, but market trends were also of independent relevance. The decline in sales volumes was primarily a demand-side phenomenon in the product market, rather than due to supply-side constraints, (although there were odd instances of strikes restricting sales). The demand trends had two main components: first, there was a cyclical decline in sales, especially to industry; and, second, in some sectors there was a downward secular trend. The decreases in output were moderated where demand was more oriented to domestic consumers whose demand was relatively income-inelastic; where corporations were in the non-manufacturing sector rather than the manufacturing sector; and where tastes were increasingly favouring the product.

Manufacturing corporations felt the full effect of the trend and cyclical forces. BSC was severely hit by de-industrialisation trends in the vehicle industry and mechanical engineering brought on by rising imports. For example, in 1979, the growth of car imports reduced BSC sales of steel to the car industry by 120,000 tonnes. Even more was lost in sales to suppliers of the car industry in construction, machine tools and other metal-using industries.[199] At the same time, there was a cyclical decline in sales of steel and ships due to the slump in manufacturing industry generally and in world trade. Additionally, the strong pound made sales sluggish, especially in FY 1980-81.[200]

The transport industries, which saw smaller sales declines, also suffered from long- and short-term factors. With de-industrialisation and the growth of service industries, freight transport was less necessary. Compounding this, the recession reduced demand temporarily. Not only did business demand fall significantly, but also domestic demand because the income elasticity of domestic consumer demand was high. Thus BRB complained that freight traffic fell due to the recession, while falling personal disposable income caused leisure travel to be curtailed and unemployment reduced season ticket sales.[201] BAB experienced both lower business and personal travel.[202] NBC, being wholly domestic consumer-oriented, found that unemployment and part-time work reduced workweek travel.[203] BWB saw freight traffic decline, and pleasure craft use was unable to offset it.[204]

The energy and utility industries lost sales, but at a slower rate than in transport, mainly because the income elasticity of demand of domestic consumers was not as great. There was a secular movement towards conservation,[205] and industrial consumption fell in the recession, but this was moderated by the smaller decline in domestic energy use. For example, in the electricity supply industry, lower manufacturing output reduced sales of electricity by 8.4 per cent in FY 1980-81, and by 1.7 and 2.2 per cent in the following two years. However, overall sales only fell by 4.1, 0.1 and 1.7 per cent respectively, due to the effect of domestic consumer demand.[206]

In contrast to other sectors, the communications sector experienced relatively buoyant demand due to secular trends towards greater communications, especially in telephone usage. To be sure, the industrial recession reduced the sales growth rate below that expected, but domestic demand and the trend increase compensated somewhat.

3.2.3 Summary

Having shown the joint importance of the political and economic market environments, factor by factor, it is worth summarising the major influences on, first, external finance, and, second, internal finance.

The progressively lower nominal growth rate of external finance, and eventual real decline, was solely due to political market forces. The structure of the market gave the Government significant power over corporations through the system for financial planning and control. As a result, the financial trends reflected the Government's pay restraint policy as well as its public expenditure objectives, modified by the force of recessionary pressures on internal finance.

The internal financial trends - the real decline and the (hesitant) nominal growth reductions - were due to both political and economic forces. Price increases were indirectly restrained by political decisions by Government: of particular importance were policies towards market structure and performance targets, aided by informal pressure, judicious appointments, and the MMC. The economic causes of greater competition in transport and manufacturing were relevant too. Output declined for most of the period due to the economic and political forces behind the more competitive market structures, and the secular and cyclical economic trends in most markets.

Within the slower-growing budgets, flexibility diminished. Larger financial targets, and performance targets, which were levelled more closely at particular costs were primarily responsible. Even so, there was generally more flexibility than in the public services.

Variations occurred across corporations for both political and economic reasons too. In the political market, the Government favoured the energy and communications sectors more than transport and manufacturing in choosing how fast to increase external finance. Transport also suffered most from the Government's deregulation policies. In the economic market, the structural changes and demand trends reaffirmed the hierarchy of stringency.

4. Synthesis and Conclusions

4.1 A schematic synthesis

The essential arguments of this chapter are that the period 1979-83 saw financial budgets increase at progressively slower rates, frequently involving real cuts or minimal growth; and that the explanation lay predominantly in the powerful role the Government played in the centre-periphery political markets, which facilitated the implementation of a strict cash limits pay restraint policy and the imposition of complementary constraints on governmental and non-governmental finance; while in other political and economic markets, authorities were constrained by governmental rules on finance and by market prices and demand.

Table 6.15 summarises the intensity of the constraints and their economic and political market sources in 1979-83 and how the picture differed from mid-1979. As in Table 3.1, which showed the situation in mid-1979, the structural and attitudinal characteristics of the centre-periphery political market, together with the labour-total cost ratio, appear on one dimension, while the pertinence and structure of, and trends in, other markets are on the other dimension. Again, the nearer an authority is to the upper left-hand quadrant, the more constrained it is.

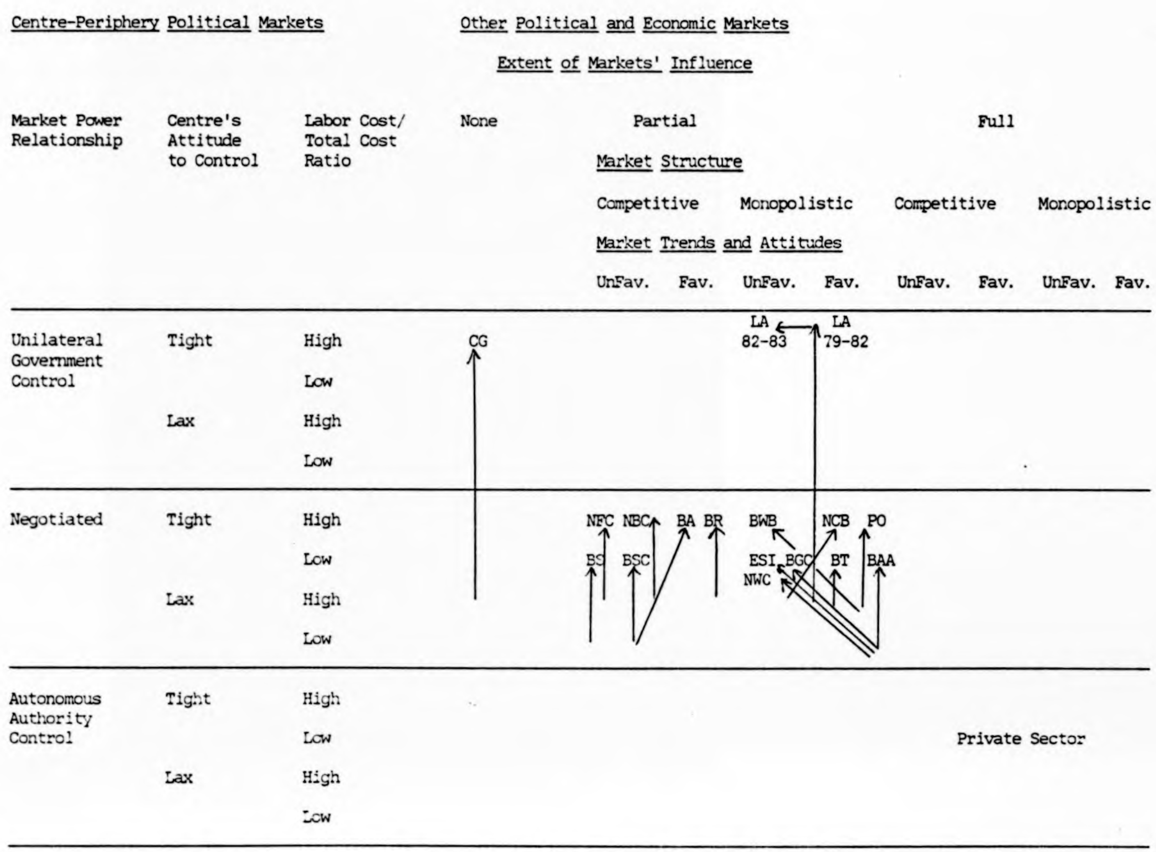

Table 6.15: Extent of Public Sector Financial Autonomy in 1979-83

The arrows show how the constraints changed between mid-1979 and the end of the period under study.

The constraints of 1979-83 were clearly tougher than in mid-1979, as the upward and leftward directions of the arrows indicate. The ultimate reasons for the increased stringency included the change from negotiated outcomes to unilateral Government control and/or the change of attitude towards tight restrictions in the centre-periphery political market. The upward direction of the arrows represents this. At the same time, other markets became more competitive or exhibited adverse trends, as the leftward-pointing arrows demonstrate.

Differentiating between authorities, central government was most tightly controlled. The Government unilaterally and stringently limited finance in the centre-periphery market. It was particularly influential due to the lack of access to other markets and the high proportion of labour costs in total costs.

Local authorities were constrained, but not by quite as much as central government. In spite of a notional negotiating relationship in the centre-periphery market, the Government's tough attitudes prevailed with little effective debate. Offsetting this, particularly earlier in the period, the local authorities were able to exploit their monopolistic position vis-a-vis the electorate and raise finance from the rates. This became a less viable option with nominal expenditure targets.

It is evident from the table that the public corporations included some authorities which were approximately as constrained as local authorities, while others were appreciably less shackled, although still distinct from the private sector. All public corporations enjoyed a negotiating relationship with Government, in which the latter was generally as aggressive as elsewhere in the public sector. In manufacturing and certain transport industries, the pressure on finance was enhanced by competitive product markets, frequently with depressed demand and a high ratio of labour to total costs. In the communications, energy and utilities, and other transport industries, the market structure afforded more monopoly power, markets were not usually as depressed, and capital-intensive production was more common.

4.2 Economic-political environments and pay increases

There is an obvious correlation between the financial constraints on budgets generated by the economic-political market environments and pay increases in the 1979-83 period. It has been demonstrated that budgets increased less and less in nominal terms, often with little real growth, at the same time that pay increases were de-escalating. Also, the rank order of authorities in terms of financial constraints bore great resemblance to that in terms of pay increases: communications and energy and utilities fared relatively well, while transport and manufacturing did not.

It would seem highly probable therefore that the pay restraint policy, along with other financial constraints, was a causal influence in the diminution of public sector pay inflation in the period. However, this does not amount to conclusive evidence: it has to be shown that negotiators were reacting to the budgetary constraints rather than other factors. To this end, the investigation must assess the role of the institutional context and bargaining strategy more generally before final conclusions can be drawn.

Notes

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3. Cash Limits: 1982-83 Provisional Outturn (and 1981-82 Outturn), Cmnd. 8987, HMSO July 1983, pp. 2, 5-8; Cash Limits: 1983-84 Provisional Outturn (and 1982-83 Outturn), Cmnd. 9323, HMSO July 1984, p. 6.
4. The Times, 24 June 1982; 'The Public Expenditure White Paper', Public Finance and Accountancy, May 1982, p. 21.
5. H.C. Deb., Vol. 967, Col. 903, 22 May 1979.
6. H.C. Deb., Vol. 980, Col. 1456, 26 March 1980.
7. Treasury Memorandum, 'The Operation of Cash Limits', in Treasury and Civil Service Committee, Budgetary Reform, Session 1981-82, Sixth Report, Appendix 2.
8. H.C. Deb., Vol. 984, Col. 1050, 13 May, 1980.
9. The Government's Expenditure Plans 1983-84 to 1985-86, Vol. I., Cmnd. 8789, HMSO Feb. 1983, p. 10; 'A Smaller Civil Service', Economic Progress Report No. 168, June 1984.
10. The Government's Expenditure Plans 1984-85 to 1986-87, Vol. I, Cmnd. 9143, HMSO Feb. 1984, p. 10.
11. Four Years' Work, Politics Today No. 8, CRD, 2 May 1983, p. 151.
12. TUC Health Services Committee, 'Minutes of meeting between Secretary of State for Health and TUC Health Services Committee, Dec. 18, 1980', HSC 2, 1980-81, TUC, 1981, p. 4.

13. Cmnd. 8789, op. cit., Vol. II, p. 58; Cmnd. 9143, op. cit., Vol. II, p. 80.

14. TUC Economic Committee, 'Public Expenditure - Planning and Control, EC 20/2, Aug. 8, 1979, TUC 1979, para. 12.

15. TUC Public Services Committee, 'Minutes of meeting of TUC Public Services Committee, Nov. 6, 1979', TUC 1979, p. 4.

16. TUC Public Services Committee, 'Public Expenditure: Issues Arising', PSC 5/3, July 4, 1979, TUC 1979, para. 8.

17. TUC Economic Committee, 'Minutes of NEDC meeting', EC 11/9, Aug. 12, 1981, TUC 1981, para. 11.

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Chapter 7

The Institutional Context of Pay Determination 1979-83

During the 1979-83 era of the cash limits pay restraint strategy, pay bargaining came under pressure not only from the austere financial environment, but also from the institutional environment. In mid-1979, at the inception of the strategy, it will be recalled that there were numerous aspects of the institutional environment that were inflationary: particularly the organisation of management, formal comparability criteria, and the access to third parties. While certain of these features remained in existence during the following four years, the general character of the institutional environment became progressively more conducive to the control of pay rises. In the same way that the financial constraints of the period had an uneven effect, the institutions of pay determination constrained some groups more than others.

This chapter explores the role of the institutional environment in facilitating lower pay increases in the major areas of the public sector during the period. Sections 1 to 3 show the ways in which the organisation of management and unions, bargaining structure, and pay determination procedures appeared to contribute to lower public sector wage inflation. Section 4 attempts to explain the reasons for the more stringent environment.

1. Management and Union Organisation

Within a given financial context, pay negotiations can produce different outcomes depending on the organisation of management and unions. As the theoretical framework in Chapter 2 hypothesized, and as Chapter 3 demonstrated regarding mid-1979, of key importance is the horizontal and vertical power distribution within the parties, as determined by organisational structures and processes such as the formal and informal allocation of responsibilities, communication channels and control mechanisms. This section considers the distribution of power, first within management, and second on the union side, and its role in public sector pay determination during 1979-83.

1.1 Management organisation

There is considerable evidence that the downward pressure on pay rises was associated with a stronger degree of control of pay determination, both vertically and horizontally, within public sector organisations. Further, the generally more stringent control of central and local government pay bargaining relative to public corporations appears related to the variation in pay increases.

1.1.1 Central government

In mid-1979 negotiators in the central government sector operated in a context of strong vertical control by Ministers, but weaker horizontal control by other groups in management. The next four years saw even more intense vertical control, and more significant horizontal control throughout the subsector. Overall, central government bargaining was controlled more by management organisation than were local authorities or public corporations.

The formal role of Cabinet Ministers in central government pay determination was nothing new: through departmental representatives, the Government was able to influence negotiations in the civil service and NHS, as well as those involving university teachers. What was a departure from past practice was the greater informal use made of this facility in order to curb pay increases. The Government gained in power at the expense of the management at the bargaining table.

In the civil service, as previously, it was the remit of the CSD (and later the Treasury) to give effect to the intentions of Ministers, but Ministers clearly controlled the actions of the CSD more closely.[1] In the first place, Ministers ensured that the CSD took a hard line. Before negotiations, prospective offers had to be submitted for Ministerial approval. An example of the tough stance of Ministers emerged in the early stages of the industrial civil service negotiations in CL2 when the Minister concerned demanded a lower initial offer than the CSD had been intending to make. The rationale was to avoid upsetting local authority negotiations that were proceeding.[2] The preoccupation with keeping public service settlements broadly in line with each other, in order to avoid any escalation, was a recurrent theme in government intervention, as will be evident in the discussion of other authorities.

Secondly, Ministers frequently circumvented the CSD and other relevant Government departments altogether. Although the Ministry of Defence (MoD) was the major employer in the industrial civil service, and was represented on the Management Side in negotiations, the Lord President of the Council and the Prime Minister had a tendency to determine the course of negotiations without consulting MoD.[3] Also, in the non-industrial civil service the Lord President played a highly visible role. In CL2 he responded personally to the unions' claim, suspended the pay research process, and made offers throughout the strike.[4]

In the NHS, as with the civil service, the formal involvement of Ministers remained the same, with a senior DHSS official representing Ministerial views in negotiations and the Minister retaining the right to veto agreements. However, within this framework Ministerial input was more significant, in spite of persistent protestations that Ministers would stand back.[5] For example, in spite of the supposed prerogative of the NHS Management Side members to determine budget allocations to pay, after due consultation, with constituent authorities, DHSS representatives let it be known that Ministers would be unlikely to countenance any offer above the pay factor. The chief concerns were 'knock-on' effects elsewhere in the public sector and the real level of patient services.[6] Other instances of Ministerial involvement abound. The Secretary of State for Social Services handled the CL3 negotiations and strike personally, meeting the unions and announcing offers.[7] At other times, Ministers issued statements saying that it would be inappropriate for health authorities to reduce services in order to finance pay increases.[8] Also, the Prime Minister herself spoke directly to the Review Body on Doctors' and Dentists' Renumeration (DDRB), impressing on them the inability of the economy to afford large increases.[9] It should be added that this is not to imply that health authorities wished to pay above the pay factor - indeed, the Regional Whitley Council briefing groups were firmly against it in most regions[10] - but that the main source of downward pressure in negotiations emanated from the Government.

University academic negotiations also felt the influence of Government. The DES representatives in Committee B firmly refused to allow increases over 7 per cent in CL2, although the universities believed they could afford it. The worry was that it might prejudice the Government's position in the civil service negotiations. In the end, a staged, 19-month, deal was allowed, but the initial instalment was only 7 per cent.[11]

While the general pattern was one of greater Ministerial power in negotiations, there were parts of central government where Ministerial influence was less far-reaching. During university non-academic staff negotiations, the Universities' Council for Non-Teaching Staffs (UCNS) was in communication with the DES, but the Government had no formal role in pay determination. As a result, UCNS retained the initiative, subject to the wishes of the universities.[12] Elsewhere, fringe bodies were frequently able to avoid Government influence. For example, the Atomic Energy Authority (AEA) met the Department of Energy and the Treasury to hear the Government's views on pay. While senior AEA management generally wished to respect the Government's wishes, they were prepared to evade control when necessary. In CL2, for instance, the October settlement was reached before the cash limits pay factor had been finalised. Negotiators knew that the Government was aiming for 'single figures', and 9 per cent was offered. The Energy Department sent a letter asking that the offer be withdrawn, but, conveniently, the letter was not opened until after the offer had been accepted.[13]

At the same time that vertical control was increasing, horizontal control of negotiators by representatives of other management functions and by other negotiators became more significant. In the civil service, the Treasury gained power. The major institutional change was the abolition of the CSD and the consequent transfer of responsibility for civil service pay to the Treasury. The intention was to increase financial awareness: as the Prime Minister said, 'Those sections of the CSD (being transferred) will now be closely in tune and in touch with policy changes on resources and control'.[14] Certainly, management side arguments became strongly market-oriented. Also, the Treasury's stringent attitude was plain to see in Government evidence to the Megaw Inquiry, which, it is alleged, it 'beefed up' by, for example, misrepresenting the trend in civil service pay relative to analogues, (by taking a distorted sample), in order to make the pay research system appear unduly expensive.[15]

In the NHS too, the finance function played a greater role. More Treasurers were included in Management Sides, and it was reported tnat the Chairmen of Management Sides referred to them much more. Whitley Council members were said to report back to health authority Treasurers to a greater degree than before. In the DHSS itself, the Finance Division checked the costing of items being negotiated.[16]

In addition, management negotiators controlled each other to a greater extent. Management Side Chairmen met monthly under a senior DHSS official. The Secretaries also met. The objective in each case was to proceed more in accord so as to minimise damage that might result from a lack of coordination.

Three issues tended to arise in meetings in relation to the control of NHS pay. First, costing practices were discussed. To avoid unions exploiting differences, they were standardised.

Second, the scope for redistributing funds between Whitley Councils was determined at this level, as individual councils could not presume it to exist. The policy was to reject petitions for redistribution in order to avoid prompting inflationary counter-claims based on upset relativities. It was realised that these would be all the more likely in a period of declining real incomes.[17] (It is true that differential increases emerged in CL3 and 4 but this was due to Ministerial intervention rather than management strategy).

Third, the joint committees of Chairmen and Secretaries examined the repercussions of offers in individual bargaining units for other Whitley Councils. Where there was a danger of pay escalation, offers could not be made. For example, in CL2 the Whitley Council for ancillary staffs wanted to maintain a link with the local authority manual workers. This involved 7.5 per cent increases financed out of a 6.2 per cent increase in the pay bill. The idea, in that form, was rejected by the committee because rival claims of 7.5 per cent would have had more profound effects on the pay bills of other Councils.[18] That these internal management controls were effective was attested to by a union official who complained Whitley Councils could no longer be 'picked off'.[19]

The power of NHS negotiators was also circumscribed by the division of responsibility for pay-fixing and day-to-day management by health authorities. Although regional representatives on Whitley Councils were formally free to agree to increases above the pay factor, they were very reluctant to do so. A common attitude was that 'it was not for the Whitley Councils to manage the NHS' by requiring local management to find savings to fund pay settlements.[20]

In the university sector, a major development occurred: the Finance and General Purposes Committee (FGPC) of the Committee of Vice-Chancellors and Principals (CVCP) gained overall financial control of bargaining for non-academic staff. Previously, UCNS had no cause to take note of the FGPC, but after the reform, as intended, it became painfully aware of financial considerations. The FGPC decided the sum to be offered on the basis of a CVCP secretariat paper concerning the likely income and expenditure of universities, including the probable Government spending for the following financial year.[21] There was little consultation with UCNS, although UCNS did begin to submit more papers to the FGPC.[22] The outcome was that bargaining was more tightly constrained. Management side members remarked that the FGPC did not understand bargaining, while a union official characterised offers as random.[23]

1.1.2 Local authorities

Bargaining in the local authorities sector was less controlled by management organisation than was central government bargaining. Nevertheless, significant increases in vertical and horizontal control were seen.

The vertical distribution of power between the Government and LACSAB and its management negotiators favoured the Government more than in mid-1979. First of all, where the Government was represented on the negotiating body, as with teaching and the police, while there were no formal organisational changes, the Government assumed a more powerful role. It used its powers more aggressively to enforce its wish to contain increases.

In teaching, the DES was prepared to limit pay increases on behalf of the Government. In CL2, the Secretary of State had indicated to the DHSS members that 7-1/2 per cent was the maximum he was prepared to see offered, but, as negotiators did not want to go further, the veto was not used.[24] The following year a 5.9 per cent offer was vetoed before arbitration occurred.[25] In CL4, according to the National Union of Teachers (NUT), the DES would have vetoed increases over 5 per cent, so 4.98 per cent was agreed.[26]

In July 1981 the Home Office, against the wishes of the Association of County Councils (ACC) on the Police Negotiating Board, proposed that there be 'an examination of the case for changes to the level at which the link was made, the method by which the link was established, or the pay structure'.[27] The Government clearly had the objective of lower pay rises in mind.

More generally, where the Government had no direct role in negotiations, it used informal channels to attempt to exercise influence over managements' stances. It met with LACSAB at the beginning of each round to make government policy clear.[28] Frequent calls were made to LACSAB to monitor the progress of negotiations. For example, the Secretary of State for the Environment was particularly anxious about the firemen's negotiations in CL2 and called to underline the importance of the settlement for the local authority manual workers' negotiations.[29] The Government also made frequent contact with the local authority associations, especially when of a Conservative persuasion. The most outstanding example of this again relates to the CL2 firemen's negotiations. Privately, the two sides agreed the implications of the link, but after pressure from the Secretary of State, the local authority associations withdrew the offer, and instead offered the 6 per cent pay factor.[30]

It remained the case, however, that the parties were formally autonomous and were not obliged to abide by the recommendations of the Government. In the firemen's case, the employers had to reinstate the offer in the face of union opposition. Also, the employers were willing to offer 7.5 per cent that year to the manual workers, and did so without the Minister being aware.[31]

Meanwhile, the vertical distribution of power between the local authorities and LACSAB continued to favour the centre. LACSAB carried out more surveys to assess the levels to which local authority managements were prepared to go, and stated that they tried to ensure that all or most authorities could afford the settlements.[32] However, complaints were still heard that local authority views were disregarded. In particular, the CL3 local authority manual settlement of 6.9 per cent against a 4 per cent pay factor was widely criticised by district and county councils. LACSAB, in response, underlined its strong position by reaffirming its right to make pay decisions as it thought fit, even when it knew that a large proportion of authorities would have to finance the deals through savings.[33] At the same time, some attempt was made to involve councillors in corridor discussions to a greater degree.[34]

Horizontal control of LACSAB by the local authority associations, primarily representing the financial interests of local authorities, occurred to a slightly greater extent than in 1979, but LACSAB remained influential. While there was no significant change in the representation of the finance function on negotiating bodies, there was a greater respect for the views of the associations. As the Secretary of LACSAB said:

> Two years later the problems are no less but there is a healthier relationship and understanding between members and officers who focus on finance and those who focus on pay.[35]

Also, the ACC tried to increase its influence over LACSAB by becoming more sophisticated in its approach to negotiations. In 1980, a Manpower Subcommittee of the Policy Committee was set up to provide a forum for ACC representatives on negotiating bodies to discuss common problems and strategies. Membership of the Subcommittee included not only the ACC Chairman and certain Policy Committee members, who were often financially-oriented in interest, but also co-opted personnel executives.[36]

In spite of these developments, the associations remained subordinate to LACSAB. One ACC official felt LACSAB was soft and untrustworthy, not always following association advice.[37] An Association of District Councils (ADC) official believed that LACSAB's influence was not felt at the initial meetings with unions, but grew to be more important at later stages of negotiation.[38]

1.1.3 Public corporations

Compared with the public services, public corporation negotiators possessed a reasonable degree of latitude. Nonetheless, they became subject to greater control as time proceeded.

Most importantly, power was lost to the Government. As in mid-1979, the Government was not represented on any negotiation body, nor was permission required for particular offers. However, the hand of Government was felt through informal mechanisms, especially after CL1. The Government gave very general advice regarding the development of the pay round through both Ministerial and official channels. Meetings between Ministers and Chairmen of nationalised industries were commonplace. For example, the Local Government Minister met the chairman of the National Water Council (NWC) to urge restraint pending the local government manual settlement.[39] In another instance, the Chairman of the Post Office (PO) was pressured directly by the Prime Minister.[40] At the official level, letters and calls from departments to corporations emphasised the need for single-figure settlements and sought to minimise repercussions elsewhere in the public sector. For example, the London Transport Executive (LTE) received a letter of advice from the Department of Transport concerning forthcoming negotiations.[41] In the same way, the Home Office contacted the BBC, and the Department of Industry and Treasury made suggestions to the PO.[42] The Environment Secretary issued a letter to all corporations in CL3, asking them to avoid making any offers above 7.9 per cent before the local authority manual workers settled.[43]

The corporations were certainly willing to heed Government advice, other things being equal. Primarily, this reflected a recognition of the dependence of the corporations on the Government. Industries with deficits, such as BSC and BR, were told that their future finance depended on productivity improvements.[44] Grant-aided corporations too feared for their funding: for instance, the BBC was worried lest the licence fee not be increased as much as they wished.[45] Certain others feared financial inquiries. The NWC was concerned about further assessments of the fairness of boards' increases in water charges.[46] Corporations in relatively sound financial shape were not immune: for example, British Telecom (BT) and the Electricity Supply Industry (ESI) tended to be wary of upsetting the Government because of the potential impact on approval for investment programmes.[47] Other reasons given for respecting 'advice' included the power of Ministers to appoint chairmen, and hence remove them from office;[48] and the personal loyalty of chairmen to the sponsoring departments.[49]

Of course, the condition attached to corporations' obedience did not always hold: other things were not always equal. Industrial relations realities had to dominate on some occasions. For instance, the National Coal Board (NCB) said the Department of Energy generally listened to the NCB, rather than advised it.[50] Also, the NWC had to flout the 'single-figure settlement' advice in CL2 and raise its offer from 10 per cent to 12.3 per cent to avoid a strike.[51] In some cases, the final settlements were camouflaged so as to give the impression that they reflected the Government's advice, when in fact they did not. This was particularly true of the energy and utilities sector in CL2.[52]

Although public corporation negotiators lost power to Government, they largely maintained control over lower levels of management. As previously, pay offers were conceived at central headquarters, or by a combined employers' committee (as in the utility industries where regional management structures existed). Local management were involved in a dialogue with headquarters in many authorities, but they did not have responsibility for the terms of offers.[53] It is true that there was some decentralisation of power within the LTE and BBC, but the import of this must not be exaggerated. From the Spring of 1981 the LTE rail and bus businesses were free from control by the Central Personnel Organisation. However, within the two businesses, pay decision-making power was still very centralised.[54] In the BBC, the views of first-line and other local management in the user directorates were sought to a greater degree, but the final decision still rested with the centre.[55] Also, as will be noted in the discussion of bargaining structure, even when pay increases could be determined at a devolved level, local autonomy was still subject to central guidance.

At a horizontal level, negotiators came under increasing pressure, although they maintained a significant degree of power. The parties formally involved in decision-making continued to be the personnel and finance functions, the Personnel Board Member, Regional Chairmen (where appropriate), and the Board, but the relative power distribution shifted. As elsewhere, the finance function appeared somewhat more powerful, with careful note being taken of financial parameters. At Board level, the composition of the membership changed as part of a deliberate Government strategy. The balance became weighted more towards part-time, non-executive, members with a background in private industry. With certain exceptions, industrialists tended to believe that the public sector 'had an easy ride', and therefore tougher stances were produced. For example, in BR the industrial relations department had to strengthen proposals to obtain the full backing of the Board.[56] In the ESI, the Engineers' and Managers' Association (EMA) felt that the lay views that engineers were over-paid influenced negotiations.[57] Consumer Council Board members were also said to have become more powerful. It was alleged that they complained about the pay of electricity showroom staff relative to that of retail trade workers in general.[58]

The reason why the industrial relations function retained some influence in spite of these changes, was, once more, that industrial relations considerations were of great importance in the day-to-day operation of the corporations. For example, it was said that in the NCB, the finance function moderated its views when the industrial relations implications were discussed.[59] In the PO, the papers sent to the Board, while written after consultations with the finance department, were industrial relations-oriented, and the Board rarely overrode them.[60] In BT and the BBC the parameters set by the Boards for negotiations were primarily those suggested by the personnel function.[61]

1.2 Union organisation

In mid-1979 union organisation had not been a significant force for wage inflation. During 1979-83 it became much more sophisticated in certain respects - particularly at the level of inter-union coordination - but yet did not form a significant obstacle to the Government's attempts to lower public sector wage inflation.

1.2.1 Intra-union organisation

The internal union controls on negotiators continued to have little upward effect on pay increases. National officers remained in a powerful position and responsive to bargaining realities. It is the case that some officers allowed the rank-and-file to have more say in decisions, given the tough bargaining climate and the fear that members might become discontented with negotiators if agreements involving cuts in real income were reached without consultation. In some negotiations, recommendations to the members were not made, while in certain others, a choice of offers was given.[62] Potentially, given the divorce of members from the bargaining area, more militant rank-and-file strategies could have been pursued. However, in practice this did not appear to occur. The national officials remained influential in that they framed the questions to members or chaired consultative meetings, and frequently made clear the implications of alternative paths of action, including the need for industrial action, thereby affecting the outcome of consultations. Also, in any case, as will be developed in the next chapter, the weak bargaining power of most unions, caused by spending cuts and falling demand, was obvious to most union members, curbing their wilder expectations and making them more similar to those of the negotiators.

Horizontally, at headquarters level, an increase in the role of research departments was evident, with the potential consequence of better-argued claims and higher increases. For instance, the First Division Association (FDA) appointed a new research officer, while COHSE and the EETPU saw their research departments gain in influence.[63] Many unions submitted lengthy papers to substantiate their case to the SCPC and arbitral bodies. The SCPS believed that their very professional research had convinced the membership of the validity of the union's case and had stimulated industrial action.[64] It is difficult to assess the impact of research on pay negotiations, but it is hard to believe that the effect was anything but marginal, even in the civil service or SCPC cases. As noted previously, the civil service settlement was little above the pay factor, while the SCPC appeared to be quite independent in its choice of methods and analogues.

1.2.2 Joint-union bargaining

The dominant type of representative organisation continued to favour higher increases, everything else equal. Unions, rather than professional associations, continued to form a majority on most negotiation bodies, especially in public corporations, but also in the public services. Changes in representation rights on the teachers' negotiation bodies gave professional associations an additional seat, but the balance of power was not altered significantly.

The representativeness of voting rights had mixed consequences. NUPE continued to be under-represented which, arguably, was a restraint on militancy, given NUPE's usual stance. In contrast, militancy may have been increased by the under-representation of the Royal College of Nursing (RCN) and the National Association of Schoolmasters (NAS/UWT) on their respective bodies, both groups having experienced a considerable growth in membership in a period of general decline.[65] But not too much should be made of this because the unrepresentativeness was relatively marginal, and other constraints on pay were much more pressing.

1.2.3 Inter-union coordination

The most significant dimension in union organisation in the 1979-83 period was coordination between unions, something that had previously been rare. Developments occurred at two levels: at union level and under the auspices of the TUC Industry Committees. In both cases, the implications for pay increases were positive, yet far from substantial.

Independent coordination occurred of both a formal and informal kind. Formal joint committees were set up in a number of sectors. In the non-industrial civil service, the Council of Civil Service Unions (CCSU) was established in May 1980, covering the nine unions. Its goal was to increase coordination and cooperation.[66] In the universities, a committee of the non-teaching staff unions, excluding ASTMS, met to exchange information.[67] In the public corporations, bodies included the Railway Federation of Unions, set up in September 1981, embracing ASLEF and the NUR. Inter alia, it was intended to coordinate pay claims and strengthen railway union organisation.[68] An Iron and Steel Coordinating Committee was established during the 1980 steel strike.[69] Informal coordination commonly occurred through contact between unions on the same negotiation bodies. Coordination between bargaining units was facilitated by national officers sitting on several bodies.[70]

These forms of coordination generally had relatively little impact. First, the cooperation tended to be short-term. The Iron and Steel Coordinating Committee broke up after the strike, for example. The effects of the coordination were therefore largely confined to a few years. Second, the content of the coordination was sometimes relatively trivial, particularly where it was mainly information-sharing. Third, inter-union rivalries precluded effective coordination in cases such as the railways, where the Transport Salaried Staffs Association (TSSA) refused to join the Federation, and NUR-ASLEF clashes persisted, and in the universities where ASTMS left the committee. Fourth, even where the content was significant, such as in the coordination of industrial action, the consequences for pay increases did not always appear to be very great. As noted earlier, the civil service settlement was only fractionally above the pay factor.

Coordination through TUC Committees became more prevalent and sophisticated after CL1. In the first year of cash limits, the mid-1979 stance persisted. There was no wish to coordinate bargaining. Some unions, such as NALGO, believed the appropriate approach was to make cash limits more flexible rather than change union organisation.[71] Certainly, the willingness of Government to fund the SCPC increases made this seem the right tactic. There continued to be problems of securing vertical control over constituent unions which jealously guarded their autonomy. The Industry Committees themselves were wary of intervening in pay determination, and possibly segmenting the union movement along sectoral lines.[72] Horizontal cooperation was also made difficult by union rivalries, and institutional features such as the multitude of settlement dates and negotiation procedures.[73]

Coordination emerged in CL2 due to increasing management coordination, especially in the NHS. The TUC Health Services Committee (HSC) began to exchange information to a greater extent.[74] The Public Services Committee (PSC) circulated 'Pay Bulletins' containing progress reports on public service negotiations. The NHS ancillary workers and ambulancemen, together with the local authority manual workers submitted the same basic claim in the early months of the round.[75] The desire for more coordination increased before the start of CL3 in recognition of there being a single paymaster, coordinated management action, and interdependent settlement dates.[76] In June 1981 the PSC analysed the prospects for intensifying the pay campaign.[77] A TUC Congress resolution in September called for more coordination.[78] The following month the TUC Local Government Committee (LGC) set up a Local Government Coordinating Committee (LGCC) to determine the strategy to be pursued.[79]

There were essentially five elements in the coordinated strategy. First, communication between unions was enhanced. Information was shared. An analysis of the New Earnings Survey (NES) was circulated. The progress of the pay round was reviewed periodically.[80] Second, it was attempted to submit claims at the same time, and where possible to establish common settlement dates.[81] For example, the LGC and the HSC tried to submit all their claims by January 1982 in CL3.[82] In addition, some groups managed to change their settlement dates, mainly to April, as a later section will show. The notion behind these tactics was to increase solidarity. Third, common elements were included in claims. In CL3 they were the maintenance of real living standards and a reduction in working hours.[83] The next round saw low pay arguments added.[84] Fourth, joint publicity was organised by the Industry Committees.[85] Fifth, joint industrial action was coordinated. For example, through regional and local coordinating committees, the HSC organised the action in the NHS dispute in 1982.[86]

In spite of what were far-reaching changes in a short-period of time, the impact on pay increases was probably relatively small. In the eyes of the unions, the most notable success was the NHS dispute.[87] Claims and negotiations were coordinated; other unions were requested not to undercut the NHS groups; and industrial action was successfully organised.[88] However, the final settlements for nurses and associated professions of 7.5 per cent in CL3 and 4.5 per cent in CL4 against initial pay factors of 6 and 3.5 per cent respectively, and for other NHS workers of 6 and 4.5 per cent against initial pay factors of 4 and 3.5 per cent, were not high (even after accounting for the timing of their implementation). Certainly, exceeding the initial pay factors by one or two per cent was unusual in the NHS, and could be attributed partly to union organisation, but nevertheless it did not represent a markedly higher settlement.

Elsewhere, there was little sign of great impact. Settlements were relatively close to the pay factor, and other factors seemed able to account for much of the difference. Union coordination of claims did not appear to influence the course of negotiations.

Many reasons explain the limited consequences of inter-union coordination. First, the vertical control of unions by the TUC Committees remained problematic. Some unions were prepared to surrender their autonomy by agreeing to a common strategy, but others were more reluctant. Union conferences sometimes preferred to adopt an independent approach.[89] In some quarters the common claim was disliked because it was too precise and members could not identify with it.[90] The GMWU preferred a flat-rate element in CL4, for example.[91] Not all unions saw advantages to a common settlement date: they preferred to negotiate in the wake of other deals.[92]

Organisational problems also hindered the effectiveness of vertical coordination by the Industry Committees. Meetings were infrequent, usually only quarterly.[93] Coordination was relatively tentative outside the NHS in CL3.[94] It was also rather slow in some respects: for instance, the NES analysis was too late to be of use.[95]

Secondly, horizontal relationships between unions were not always optimal. One weakness in coordination arose where bargaining units included significant numbers of employees who were not represented by TUC affiliates.[96] For example, a persistent concern in the NHS dispute was whether, or when, the RCN would break the common front. Another problem related to the TUC unions themselves. In particular, the nationalised industry unions showed a profound lack of interest. Members of the Nationalised Industries Committee (NIC) were missing at key meetings regarding the pay campaign.[97] They had to be cajoled into providing information for a nationalised industry pay bulletin in CL4. Basically, they felt their industries were under less financial pressure than the public services in most cases. Also, they saw the 'opposition' as the authority, not the Government, and hence could not share in fighting the common employer.[98] Some public service unions, too, were not enthusiastic, caring more about combatting the trend towards privatisation.[99]

Thirdly, management tactics reduced the chances of union success. In some cases, they delayed negotiations to the usual date, reducing the opportunity for joint action. For example, one year, the teachers' negotiations were delayed until April, although they were looking to meet in January. Also, managements were not prepared to change settlement dates unless they could see advantages in it. The industrial civil service unions found the provisos placed upon a change of date unacceptable.[100] Further, coordinated action was deterred by agreeing to go to arbitration rather than succumbing to joint-union pressure.[101] In addition, sympathy strikers were disciplined in the civil service after supporting NHS workers.[102] Finally, managements were not above orchestrating the round to their own advantage. This has already been demonstrated in relation to management organisation. They were happy to have the local authority manual workers settle first because they were relatively weak. They were also pleased to see the NHS agree to relatively low increases in CL4, (as the second part of the two-year staged settlement), before other groups had settled.

1.3 Summary

The evidence indicates that the formal and informal features of organisational structures and processes probably bolstered management negotiators more than union negotiators. Management bargainers saw relatively tight Government control, and felt some pressure from parties with financial interests. Union organisation was characterised by rank-and-file and research department involvement; unions rather than professional bodies predominated; and most notably, inter-union coordination took place. However, basic attitudinal and structural weaknesses on the union side meant that management negotiators had a more solid organisational backing.

It seems reasonable to conclude, therefore, that the de-escalation of pay increases over the 1979-83 period was at least facilitated by, if not in part caused by, organisational factors. Further, the variations in the autonomy of management negotiators across subsectors of the public sector appeared to be related to the magnitude of settlements: where there was tighter control of negotiators, increases were less.

2. Bargaining Structure

Bargaining structure - the levels, units, form and scope of bargaining - was a restraining force in pay determination in mid-1979. Over the following four years it was even more so.

2.1 Bargaining levels

Bargaining levels did not change much at all, remaining highly centralised. The only major change was at the British Steel Corporation (BSC). After the 1980 strike, BSC chose to impose decentralised bargaining:[103] local management and unions were charged with negotiating bonus schemes. Centralised bargaining facilitated control, given the surrounding environment of the time. Most important, it put management negotiators within close earshot of increasingly-prevalent Government advice. As always, it also made the settlements highly visible and susceptible to social pressure from the public and the media.

In assessing whether centralised bargaining promoted control, it is perhaps significant to mention that where the question of the appropriate level of bargaining was discussed, centralisation was favoured by the employers. The NWC, which was to be dissolved in September 1983, decided that it would be in the water authorities' interests to continue pay bargaining at a multi-employer level, although certain other items could be decentralised.[104] The Megaw Inquiry, also, could not see any merit in departmental pay in the civil service, apart from in parts of MoD. It felt that central control over cash limits would be threatened.[105]

Elsewhere, where decentralised bargaining took place, the potentially inflationary consequences of decentralised bargaining were frequently minimised by centralised management coordination and control. In BSC, for example, flexibility was not absolute. National framework agreements set parameters for local negotiations, and also affected pay themselves through the setting of minimum payments and the periodic consolidation of bonus.[106] In British Aerospace (BAe), where divisional bargaining took place, headquarters determined the pay offers.[107]

This view is underlined by the fact that local bargaining was not necessarily synonymous with high pay increases. Universities outside the UCNS consortium were generally low-paying institutions.[108] Also, while some bonus schemes had decayed, as in local authorities and the NHS, others were far from lucrative. For instance, in BSC, in the last quarter of 1982, the schemes did not pay a bonus in 30 of 62 cases due to deteriorating business conditions.[109] In any case, the inflationary effect of many local increases was offset by rises in productivity.

2.2 Bargaining units

Bargaining units continued to be highly concentrated. Most authorities had units that grouped together the representative organisations at each broad occupational level. The trend, albeit a minor one, was towards consolidation. In BT, the STE and SCPS came to form a combined bargaining unit for managerial and professional grades, pending the transfer of SCPS members in BT to the STE. Also, the CPSA and CMA bargained jointly.[110] Elsewhere, in the non-industrial civil service, the civil service unions not only coordinated their stances, but also bargained together through the CCSU after CL1.

On balance, the effect appeared to be to aid pay restraint. The chances of sectional claims were reduced. Where concentration was high, there were relatively few serious leapfrogging incidents. Where it was low, they were more frequent. For instance, in CL1 there were upset relativities in the civil service and BT. The IPCS groups in the non-industrial civil service felt they got an unduly bad deal out of the pay research exercise, and eventually went to arbitration to improve their relative standing.[111] In BT there were several claims and counterclaims by the engineering and staff unions. After the SCPS settlement, the manual and white-collar engineers complained that the new pay structure would permanently alter pay relativities in favour of non-engineering supervisors and managers. Arbitration gave the engineers an increase. A separate arbitration award benefitting the POEU determined that management was obliged to reopen the 1979 agreement as promised, and made a small wage award. This led the CPSA, in turn, to demand that its agreement be reopened.[112]

Of course, this is not to say that fragmented bargaining always implied inflationary leapfrogging. Some organisations were able to contain it. It has already been seen that, in the NHS, management organisation kept the various Whitley Councils in line. British Airways, with its large number of National Sectional Panels, also generally succeeded in reaching the same settlement with each of its groups.[113] At the BBC, finite limits were set to the extent to which sectional claims would be financed. Before October 1980, leapfrogging was common, mainly due to arbitration awards, but from then on the cost of any regradings had to be met from the budget for total labour costs.[114] A further reason why fragmentation did not necessarily imply a lack of control was that it was often the case that even fragmented units were large and therefore highly visible to the public, government and the media.

2.3 Bargaining form

Agreements were written down and were precise, as in mid-1979. Reflecting centralised management control over decentralised bargaining, it was not unusual to see explicit frameworks for local productivity deals or bonus schemes. For instance, in British Shipbuilders, model added-value productivity schemes were circulated. The required characteristics were stipulated, including the need to be self-financing.[115] As a result of such detailed agreements, bargaining form was generally conducive to pay control at all levels of bargaining.

2.4 Bargaining scope

The subjects of bargaining did not appear liable to boost wage inflation. Indeed, a more dominant theme in the 1979-83 period was management wanting to obtain productivity concessions in return for increases in pay. Thereby, pay increases were variously curbed or delayed because the productivity gains were not forthcoming, or they were financed by the greater efficiency.

Apart from minor productivity deals and incentive schemes, some authorities based the greater part of their pay increases on the achievement of substantial changes in working practices that had previously been regarded as non-negotiable. This was the case in BSC as already seen. In BR, management refused to pay the CL2 award by the Railway Staffs National Tribunal (RSNT) until it won guarantees on key productivity items relating to single manning of trains.[116]

Unions did not generally attempt to widen the scope of bargaining to increase their compensation. They recognised that all renumeration items had a financial cost, and, given limited budgets, preferred to concentrate on increasing basic rates to benefit the majority.[117] In addition, the unions usually lacked the power to widen the subject coverage of negotiations.[118] Instead, greater attention was directed at items other than compensation. In particular, health and safety issues were raised more, in part due to the impact of expenditure cuts on working conditions.[119] Other growing concerns were new technology, flexible hours, and employment protection.[120]

2.5 Summary

Overall, bargaining structure contributed to pay restraint between 1979 and 1983. Centralised bargaining enabled the centralisation of management decisions to influence negotiators effectively. The high degree of concentration of bargaining units was associated with few leapfrogging claims. The precision of national agreements left little leeway for deviation in the payment of general increases, and in some cases carefully restricted the autonomy of local negotiators. Finally, the scope of bargaining encompassed working practices, thereby reducing the inflationary effect of increases.

The role played by bargaining structure in the de-escalation of public sector pay increases was essentially a facilitating one. The changes in bargaining structure over the period were not significant or widespread enough to have caused the trends in pay. But the characteristics of bargaining structure did enable other forces to have the impact they did.

3. Pay Determination Procedures

Quite apart from the organisation of the parties and the bargaining structure, the procedures followed in determining pay - formal criteria, third-party intervention, settlement dates, and pay systems - collectively contributed to the diminution of wage increases in the public sector.

3.1 Formal pay criteria

The formal criteria - that is, criteria laid down in agreements or in the terms of reference of standing bodies - did not appear to promote low inflation. Table 7.1 shows the pay increases gained by groups with formal pay criteria in each round of the pay restraint policy. It is clear that the groups generally fared better than those in the other authorities in central and local government.

That said, the formal criteria played a role in the de-escalation of pay increases during the period, independently of the reduction in the increases obtained by analogues: changes in the operation of the criteria were the cause. First, the access of groups to pay determination mechanisms employing formal criteria was curtailed. Second, the modus operandi of the criteria became more stringent in some respects. Third, the method of implementing the results of the pay determination process sometimes reduced the inflationary effects.

Regarding the availability of the formal criteria, the public service groups which might have referred their cases to the Standing Commission on Pay Comparability (SCPC), together with the non-industrial civil service, saw their access to comparability mechanisms removed after CL1. The Civil Service Pay Research Unit (CSPRU) was suspended in October 1980 and its reports were suppressed.[121] The SCPC had been given notice of its demise in August and completed its inquiries by the end of the year.[122]

No formal criteria replaced the comparability mechanisms. The Megaw Inquiry reported in July 1982 and recommended a modified form of comparability for the civil service: increases were to be within the interquartile range of increases seen in the private sector, the exact

Group	Pay round			
	CL1	CL2	CL3	CL4
AFRB	14.5-20.0	10.3	4.0-8.9	3.9-9.9
Police service	13.5	21.3	13.2	10.3
Fire service	20.0	18.8	10.1	7.5
Civil service	18.75	n.a.	n.a.	n.a.
SCPC	various	n.a.	n.a.	n.a.
Central Govt. (excl. SCPC)	17.0	9.1	6.9	4.4
Local Auths. (excl. police and fire)	15.9	8.5	7.7	5.9

Table 7.1: Percentage settlement rates in groups with formal pay criteria and in central and local government 1979-83.

Sources: Specific group data from settlements.
Sectoral data from Chapter 5, Table 5.3.

point to be determined by supplementary collective bargaining arguments.[123] However, no new system was introduced during the period of interest, the Government not agreeing until December 1982 to enter into negotiations on the basis of the report.[124]

Instead of formal criteria, negotiations were based on the conventional range of arguments. As will be explored in more detail in Chapter 8, the comparability argument of the unions came to be dominated by management concerns regarding the ability to pay and recruitment and retention. In abolishing the formal criteria the Government clearly intended that pay increases would be lower. The Lord President of the Council told the civil servants' unions that 'cash limits would be the major determinant' of pay[125], at the same time that the Prime Minister was saying that, after the SCPC,

> pay needs to negotiated with full regard to the country's economic circumstances, to the need to improve the efficiency of the public services and to what the taxpayer and ratepayer can be expected to afford.126

Union bargaining arguments and pay surveys demonstrated that, indeed, pay over CL2 to CL4 failed to keep pace with that of comparators.[127]

The other groups with formal criteria retained them. For the police service and the armed forces this reflected the Government's election promise. In addition, the Armed Forces Review Body (AFRB) justified the maintenance of comparability as essential in order to be fair to servicemen and women and to the taxpayer, and to be able to recruit and retain personnel of adequate quality.[128] The fire service retained its link although, as noted earlier, the employers attempted to eliminate it. Initially, they disregarded it in negotiations in CL2, but were pressured by the Fire Brigades Union (FBU) into honouring it.[129] In February 1981, the employers then gave notice of withdrawal from the link, but it was reinstated after the May elections.[130] Although it cannot be proven, it seems highly likely that the increases in pay obtained by these groups were higher than under conventional bargaining. Certainly, the employers in the fire and police services believed so, complaining that the formulae took no account of the ability to pay, productivity, and supply and demand.[131]

While the trends in the incidence of formal criteria indicated a likely reduction in wage inflation, certain commentators suggested that formal criteria were increasing in significance once more by the end of the period. Reference was made to the establishment of a Review Body for nurses and professions allied to medicine with effect from April 1984, and Burnham Committee working parties which had been formed to produce agreed comparability data to be used in the April 1984 negotiations over teachers' pay.[132] However, it seems clear that these developments did not imply formal comparability criteria were to be revived. There was no intention on the Government's part that the Review Body should become a vehicle for unabridged comparability. It clearly stated in the Body's terms of reference that it would 'submit evidence on economic and financial considerations, and on such factors as recruitment, retention and motivation.'[133] The teaching working parties were merely collecting data to inform negotiations and to help them reach agreement.

The manner in which the comparability criteria were operated can be divided into two stages: the selection of the analogues, including both the method of comparison and the choice of external fields; and the account taken of other factors in determining appropriate increases. The former stage did not appear to accelerate the decline in wage increases. In some respects, the selection of analogues continued to have a probable inflationary bias. Throughout the period the police and fire services used the method of index-linking, generally regarded as one of the more expensive forms of comparability: witness the Government's delight and the unions' dismay when it was rejected by the SCPC.[134] The AFRB used factor comparisons, as did the SCPC on occasions, which were less lucrative for workers, while the CSPRU and the SCPC (generally) employed job-for-job comparisons, usually the least productive comparisons. For instance, the SCPC was hard-pushed to award pay increases for some local authority manual workers because their direct analogues were so poorly paid.[135]

Likewise, the choice of external fields for comparison purposes was most suspect from a counter-inflationary standpoint in respect of the police and fire services, two of the three groups with a formal criterion for the whole period. Police pay was linked to the change in average earnings for all workers, while firemen's pay was linked to the upper quartile male manual earnings level in the April New Earnings Survey (NES), updated by the average earnings index. In both cases the employer sides felt that the points of comparison gave increases that were too high. The official side of the Police Negotiating Board (PNB) said that it was 'fully aware of the extent and depth of outside concern over the levels of police pay'. It asked for an examination of the appropriateness of the 1983 pay levels, and the idea of a link with the pay of the armed forces was floated.[136] The Employers' Side in the fire service was concerned at the extent to which the point of comparison, which was originally supposed to represent skilled workers, produced increases far in excess of the cash limit pay factor. It wanted to see a wider database used to make comparisons more valid, but no changes were introduced in the 1979-83 period.[137]

Elsewhere, external fields were criticised, but whether they were truly biased was open to question. The civil service analogues were concentrated in large firms, with many in finance and the public sector: two-thirds were in firms with more than 5000 employees, a tenth were in finance industries, and a quarter in the public sector.[138] The Government was suspicious that these were not representative, and at the end of CL1, before suspending pay research, stated its intention of increasing the proportion of outside survey officers and appointing an outside Director of the PRU, having already increased the number of businessmen on the CSPRU Board.[139] However, this view may have been largely unwarranted. The CSPRU Board could not find a relationship between firm size and pay. It also believed it necessary to use financial and public sector analogues in order to find adequate numbers of jobs entailing broadly comparable work in the relevant industrial orders. Further, it found the survey methods and practice to be thorough and impartial, and capable of satisfying the severest critic.[140] Independent assessments of civil service pay relativities carried out for the Megaw Inquiry also found that over a quarter of a century of pay research, civil service pay had not deviated significantly from private sector pay.[141]

The SCPC attempted to obtain a representative view of the economy as a whole, including the public sector. Concerns were voiced that the samples were not balanced because, for job-for-job comparisons, PRU data were used. The Government was also worried about unduly high increases from the use of public sector comparisons, which were 'not sufficiently subject to market forces', and groups which had their pay fixed with reference to comparability.[142] Against this, the PRU told the SCPC of shortcomings in the data, and the SCPC asserted that these were borne in mind when making recommendations. Also, supplementary surveys were used where necessary, and consultants' databanks were drawn on when using the factor comparison method, widening the field of comparators. Furthermore, the SCPC could find no systematic relationship between the pay increases of analogues and their public-private sector composition.[143]

The selection of analogues may not have helped the downward trend in pay rises, but adjustments to the survey and index data in taking account of other factors appeared influential. First, pension contributions were raised. As explained in Chapter 3, there had been disquiet at the relatively low deductions from pay for index-linked pensions. The Scott inquiry reinforced this. While not recommending the abandonment of index-linking, it found that the calculation of deductions took insufficient note of public-private differences because the analogues in fact included other public sector workers with index-linked pensions.[144] However, in CL1, the civil service deductions rose from 2.6 to 3.8 per cent.[145] In CL4, the contributions of policemen were raised by the Home Office from 7 to 11 per cent, and for policewomen from 5 to 8 per cent. The armed forces and fire personnel also increased their contributions.[146] These changes reduced the value of the increases implied by the formal criteria.

Second, deductions were also raised in respect of food and accommodation charges in the armed forces. In CL3, while pay rose between 4 and 9 per cent, food and accommodation charges rose 25 per cent.[147] By the end of the period, the official side of the PNB was contemplating substantial increases to compensate for rent allowances.[148]

Third, there was hard bargaining over the appropriate deductions for non-monetary advantages in the civil service in CL1. The CSD simply ignored certain fringe benefits received by outside comparators, such as cheap mortgages. In comparing hours and leave, they asserted, without evidence, that comparators outside London worked one hour longer than civil servants, and they included public and privilege holidays in leave calculations. The SCPS's annual comparison of actual negotiated rates and what was expected from an objective analysis of PRU evidence regarding true money rates, superannuation, hours and leave, and fringe benefits, showed that the rates at grade maxima rose between 18 and 19.1 per cent against 'objective' increases of 20.1 to 24.4 per cent.[149] Some IPCS workers at higher levels received little or no increases until arbitration.[150]

Fourth, it was clear that, informally, other, non-comparability, criteria crept into negotiations. In the fire service, for instance, in CL2 the two sides massaged the data so as to produce increases they could both live with: essentially, this meant recognising the ability to pay was limited.[151] Improvements in efficiency were requested by the SCPC in its awards to manual workers in local authorities and the NHS.[152] At the same time, relative job security did not surface, in spite of the Government's wish that it should if comparisons were to be valid. Both the SCPC and the Scott Inquiry were unable to measure relative job security and the SCPC also doubted there was a relationship between security and pay, save in a few extreme cases.[153]

The final feature of the formal criteria mechanisms to influence the scale of pay increases was the manner in which the comparability increases were implemented. All the increases were accepted by the relevant employers, but certain of them were staged, mainly for financial reasons. This kept down the immediate effects on pay rates and deterred competitive claims. For example, most of the SCPC increases were very large, and if they had been paid in a single instalment they could have significantly boosted other workers' expectations. The staging of the fire settlement in CL2 also helped prevent difficulties with other local authority settlements.

Overall, it appears that the formal criteria used in pay determination aided the de-escalation of public sector wage inflation in several ways in spite of providing increases that were large relative to most settlements. Of key importance were, first, the reduced access of groups to procedures involving formal criteria, and, second, the tougher manner in which the criteria were administered.

3.2 Third-party involvement

Apart from the AFRB, SCPC and PRU, other third parties having a hand in public sector pay determination were the Doctors' and Dentists' Review Body (DDRB), the Top Salaries Review Body (TSRB), arbitral bodies, and pay inquiries. As Chapter 3 made clear, these bodies were capable of frustrating pay restraint policies. In fact, as operated in the 1979-83 period, they appeared to be only slightly more inflationary than collective bargaining in general; and changes in their incidence and operation as the period progressed actually accentuated the decline in public sector pay increases. Thus the cash limits pay policy was largely facilitated and augmented by the state of third-party involvement.

3.2.1 Review Bodies

Ignoring previously-abated increases including the catch-up increases promised to compensate for the effects of the Labour Government's incomes policy, the recommendations of the DDRB and TSRB were generally quite close to the average settlement rate in central government. Part 1 of Table 7.2 illustrates. Over the period as a whole, the recommended increases were only a few percentage points higher for the Review Body groups.

This does not square with the normal perception of Review Bodies as more inflationary institutions because the recommended increases most visible to observers included not only the above recommendations, but also the increases that the Government had failed to implement in the past. Abated increases were a significant part of the total, especially for TSRB groups, as the second part of the table makes clear.

The reasons for the unexceptional underlying increases during the cash limits policy are to be found in the Review Bodies' criteria and modus operandi. These factors did not only allow the policy to operate largely unimpeded, but also, changing as they did during the period, added to the de-escalation independently of pay factors.

Initially, comparability was the influential criterion. The Phase 3 reviews had established appropriate levels, but because they were not fully implemented, the Review Bodies updated the figures for the next two years, relying mainly on comparative movements in pay. But thereafter comparability took on a more subordinate role. As the DDRB said, once the 1978 recommendations were fully implemented,

> detailed comparisons with earnings movements will have a less direct role to play in our deliberations.[154]

Instead, comparisons were to be used as a longer-term check on relativities. As it turned out, even as long-term checks, comparisons were not of great relevance. The DDRB's CL4 recommendations established pay levels that had fallen behind the NES comparison point by 14.7 per cent since 1980.[155] The TSRB, meanwhile, in CL2 did not even bother to update their recommendations of the previous year after they had been abated.[156] In CL3 it was emphasised that comparability was not being used mechanistically. Indeed, the recommendations of 16.6 per cent on the 1980

Year Group	CL1	CL2	CL3	CL4
1. Increased on recommended scales				
Central Government	17.0	9.1	6.9	4.4
DDRB	18.7	9	5.5	5
TSRB	14	0	16.6	6.9
2. Recommended restoration of abated increases				
DDRB	12.7	0	3	0
TSRB	10	12	5.3	5

Table 7.2: Percentage pay increases on recommended scales, and recommended rises to restore previously-abated increases for DDRB and TSRB groups, 1979-83

Notes: The total increases recommended were the sum of (1) the newly-recommended increases and (2) the previously-abated increases.

Sources: Reports of Review Bodies and Chapter 5, Table 5.3.

recommended scales compared poorly with increases of 24 per cent for individuals covered by a renumeration survey and a 30 per cent increase in the average earnings index.[157] These changes were accompanied by a lesser emphasis on social criteria such as the cost of living, and the level of taxation. Instead, the state of the economy played a greater part.[158] Although less note was taken of budgetary constraints than in most of the rest of central government, it was a significant change from the preceding era when the Review Bodies did not see economic constraints (apart from incomes policy) as relevant to their deliberations. In addition, other market criteria were used. While recruitment and retention had always been considered, job security emerged as an explicit argument.[159] Also, from CL3, it was borne in mind that unemployment among the less-skilled might be artifically boosting the upper-quartile point on the NES non-manual distribution.[160]

The way the Review Bodies operated added to the effects of the change in dominant criteria. Most importantly, the client relationship of the Bodies to their charges was less evident after CL1. It is true that the reports regularly restated the independence of the Bodies from Government, insisting on the Bodies' right or duty to recommend appropriate remuneration levels and to be free of prior limits on increases outside conventional incomes policy.[161] However, the reports showed a much greater concern for the so-called 'national interest' than previously when sectional interests were promoted. The change of attitude was made explicit in the giving of oral evidence in CL2, when the DDRB made it clear to the professions that the Review Bodies operated in a wider economic and political context, and necessarily had to take account of general economic circumstances.[162]

Problems still remained with the process of pay comparisons, possibly causing incorrect assessments of appropriate increases. Although a new job evaluation exercise was carried out for the TSRB review in CL3, there was still no job evaluation of doctors and dentists.[163] External comparators were hardly scientific, with the DDRB continuing to look at the NES upper quartile, the TSRB surveys of top armed forces and civil service jobs having a small sample size, and the survey of barristers' receipts being confined to recent appointees in most years.[164] However, this was not of great significance after 1980, given the overshadowing of comparability by the ability to pay and other market concerns.

Finally, it is conceivable that the manner in which the recommendations of the Review Bodies were implemented may have helped bring wage increases down. First, in some years the Government was slow to decide whether to override the recommendations, allowing other groups to settle before expectations could be boosted by the increases for Review Body groups. Second, as noted earlier, the recommendations were regularly abated, directly and indirectly affecting settlement levels. Against this, the consequently higher recommendations in subsequent years and the larger implemented increases may have had an offsetting effect. As the TSRB remarked:

> The main reason, in our view, why successive Governments have been prone to hold down top salaries is to set an example, or at least to avoid repercussions which they might fear. It seems to us that the exemplary force of such measures is greatly exaggerated and that sooner or later the problem is likely to become all the more difficult through pressure for large 'catching-up' increases.165

3.2.2 Arbitration and dispute inquiries

Other forms of third-party intervention in pay determination, arbitration and dispute inquiries, likewise, probably caused settlements to be marginally above what otherwise might have been negotiated. This stemmed from their problem-solving role and the associated need to make an award that was acceptable to the union side. Sometimes that award could not have been attained through strike action, given the distribution of bargaining power at the time, but was given all the same to prevent disruption. However, the extent of access of groups to third-party hearings and the criteria employed by the third-parties minimised the effect on wage increases.

Access to arbitration and inquiries was not always easy in the 1979-83 period and in fact became increasingly difficult, especially after CL1. The Government's attitude was that

> the main defect in many current arrangements is that they provide unilateral access to arbitration; ... this right should be re-negotiated or if necessary withdrawn.[166]

The concern was that the ability to pay was not sufficiently recognised, forcing employers to go beyond their final offer. Some authorities duly made references joint rather than unilateral. Pay determination was affected. For example, the PO began to oppose arbitration even on minor matters.[167] In the case of the teachers, the Government consistently opposed recourse to arbitration in CL3.[168] Quite apart from instances where the rules concerning references were changed, the Government and other employers were reluctant to agree to arbitration. The Government refused access in the civil service and NHS disputes, and in the academic teachers' negotiations.[169] In the NHS case, a Minister explicitly justified the action by saying it was solely the Government's responsibility to decide the ability to pay and to stick to it; arbitrators were not publicly accountable and tended to split the difference between the last offer and claim.[170] Other employers often opposed arbitration, such as in municipal transport.[171] In some cases, such as the BBC, they were helped by the demise of Schedule 11 of the Employment Protection Act, which previously had enabled groups to go to the Central Arbitration Committee (CAC) to have their pay brought up to industry levels.[172]

Where arbitration or inquiries took place, the criteria used to determine appropriate increases were not usually significant threats to the effectiveness of the pay restraint policy, even though, typically, small amounts were added to the employer's final offer. First of all, third parties did not generally ignore the ability to pay. Where the reasoning was given in the award, serious account was taken of financial pressures. For example, in the CL1 arbitration over the pay of local authority white-collar workers, the arbitrators wrote:

> The Committee is not well-versed in the intricacies of local government finance but it is persuaded that there is considerable substance in the Employers' Side's argument... The Committee, therefore, has kept the question of the ability to pay very firmly in its mind throughout its deliberations.173

Only a two per cent increase in the offer was made, and that was delayed. In the same year, the teachers' arbitration body report said that although the ability to pay was complicated and uncertain, the panel was convinced that stringent restraints existed. The employers' original offer had been 13 per cent (before subtracting the Clegg overpayment), and the body awarded 12 per cent with a later payment of between 2-1/2 and 4 per cent.[174]

Where the reasoning of the third-parties was not detailed, circumstantial evidence points to a similar recognition of budgetary limitations. For example, in the CL3 arbitration at London Transport, in which a 7 per cent award was suggested to the parties, management had offered 5 per cent, but had been willing to go to 7 per cent if agreement was forthcoming on productivity.[175] The civil service arbitration of that year awarded 6 per cent.[176] Although the final offer had been 3.5 per cent, experience had shown that there was some slack in the cash limits.

Even where strikes had to be resolved, the inquiries tended to pay attention to the ability to pay. In the CL1 steel strike, the Lever inquiry came down nearer management's final position. Management had offered 10 per cent on basic rates and 4 per cent as a minimum bonus; the unions had demanded 14 and 5 per cent respectively; the award was 11 and 4-1/2 per cent respectively.[177] In the water dispute, the Johnston inquiry report contained a recurrent theme of improved productivity: a payment was made for flexible working; another was consolidated as a 'continuing incentive'; and a working party was set up to discuss productivity.[178] This was to help finance the award as well as to justify it.

Of course, there were instances where one or both of the parties felt that there had been too little attention paid to the ability to pay. For example, this was most obvious in BR where the Railway Staffs National Tribunal (RSNT) awarded 8 per cent plus a delayed 3 per cent in CL2, and management was not prepared to pay the second stage until productivity increases had been negotiated.[179] Nevertheless, the generalisations remain valid.

The second observation to be made concerning the criteria used by arbitral bodies and inquiries is that comparability was considered, being the main union argument, but that it only played a role in a narrowly-defined manner. Other than where important links had been broken (such as between management and NJIC formen in the electricity industry, and between LT and BR personnel),[180] no arbitrations or inquiries accepted that past relativities should be maintained in the economic climate of 1979-83. The local authority white-collar arbitration recognised the union argument that there had been a loss of relativity since the in-house comparability study the previous year, but would only award a total of 15 per cent against the claim of 20 per cent.[181] The CL1 teachers' arbitration report also noted that the SCPC report had stated that the maintenance of relativities was only reasonable for a limited period, and that it was unreasonable to believe that settlements would be achieved solely by the comparative method at that time.[182] In the civil service arbitration in CL3, the award of 6 per cent made no attempt to remove the shortfall in relative pay, estimated at 16 to 20 per cent by the unions.[183]

Rather than maintain historical relativities or seek to achieve pay level parity, third parties appeared to be concerned with awarding increases that were close to the going rate of increase in the public sector at the time. This minimalist version of comparability was one consideration cited in the CL1 arbitration report on teachers' pay.[184] In CL3, the teachers were awarded 6 per cent, which was identical to the Scottish teachers arbitrated settlement, and 0.2 per cent above the further education pay increase.[185] The civil servants' 6 per cent increase can be interpreted in a similar manner.

3.2.3 Summary

Overall, as this section and the last have shown, third parties probably added to wage inflation owing to their independence and problem-solving role. That said, the intended effects of pay restraint through financial controls were not frustrated to as great an extent as might have been expected. Under the SCPC and PRU, where comparability was the sole criterion, the procedures were generally as non-inflationary as possible, and both bodies were abolished after CL1. The Review Bodies, apart from the AFRB, de-emphasised comparability and acted less as the groups' agents. Finally, arbitrations and inquiries also played down comparability, and groups found their access to arbitration limited. Since the availability and operation of most third parties were tightened up during the period, it seems likely that the institutions themselves had an independent effect on the diminution of pay increases.

3.3 Structure of the pay round

It is difficult to discern more than a minor inflationary impetus from the length of intervals between settlements and the order of the pay round. Further, to the extent that it was pertinent, it was greater in the first half of the period than in the second, thereby contributing to the de-escalation of wage increases.

The settlement intervals continued to be twelve months in the great majority of settlements. Table 7.3 lists the major exceptions. Where they were other than a year, it was only for a pay round or two: a twelve-month pattern was soon regained. The divergences usually arose because there were short-term difficulties that could only be resolved by larger increases over a longer period, such as happened in CL2 in the case of university teachers and technical workers, for example.[186] Other rationales included the wish to change the settlement date for various reasons; and, in cases of delayed settlements, the desire to avoid further negotiations a few months later, as occurred in CL3 in the NHS after the strike, and in BA where the January settlement that year had to be delayed to October for economic reasons.[187]

Group	Old date	New date	Agreement length (months)
Central Government			
CL2			
Universities: manuals	Nov. 80	Apr. 82	17
technicians	Oct. 80	Apr. 82	18
teachers	Oct. 80	Apr. 82	18
NHS: ambulancemen	Jan. 81	Apr. 82	15
ancillaries	Dec. 80	Apr. 82	15-1/2
Public Corporations			
Phase 4			
PO: operational grades	Jan. 79	Apr. 80	15
telecomms. op. grades	Apr. 79	July 80	15
clerical & exec. grades	Apr. 79	July 80	15
NFC: manuals	Nov. 78	Jan. 80	13-1/2
BGC: staff	July 79	June 80	11
CL1			
BGC: senior management	July 80	June 81	11
BS: all grades	Jan. 80	Apr. 81	15
BWB: staff	Sep. 79	July 80	10
NTS: senior management	Apr. 80	July 81	15
PTE: staff	Sep. 79	Apr. 81	19
NCB: all grades	Mar. 80	Jan. 81	10
CL2			
NCB: all grades	Jan. 81	Nov. 81	10
PTE: manuals (Glasgow)	Oct. 80	Apr. 81	5-1/2

Table 7.3: Major changes in settlement dates taking effect 1979-83

Agreements longer than twelve months usually implied higher increases than otherwise might have been expected. For example, in CL2, NHS ancillary workers and ambulancemen negotiated 15-month agreements that were proportionately more lucrative than for other NHS groups: they gave 7.5 rises as opposed to 6 per cent. This tendency was less pronounced in the later years, with the result that the pay restraint policy was not impeded as much.

However, it is important not to overstate the inflationary effects of the different intervals. First, not all parties negotiating longer agreements received higher increases. The New Towns senior management in CL1 were one example. Second, the indirect effect on other groups was sometimes minimised by staging the increases so that the first instalment was close to the general settlement level elsewhere. This characterised the 19-month PTE staff increases in CL1, and the university manual, technical and academic 17-18-month settlements in CL2, for instance. Third, where agreements were shorter, increases were not above what would have been likely for twelve months: the only effect was that increases occurred sooner. While there were cost implications, the wage inflation level in the pay round was no higher. Finally, as the table indicates, the number of instances of longer and shorter agreements was comparatively small.

The order in which groups settled in the pay round in the cash limits era changed compared to Phase 4 as a result of negotiations in Phase 4 and after. As a result, as the table shows, the cash limits pay policy operated in a context where central government negotiations were more concentrated in April than hitherto, and where many public corporations settled later than before, usually between April and July, with the exception of the NCB, which brought its date forward to November.

Where the change of settlement dates was not simply a by-product of the short-term industrial relations and economic difficulties cited earlier, but was a purposive action, employers tended to want to move so as to align agreement lives with budgetary periods in order to make both financial and pay decison-making easier. Thus negotiations could be conducted in the light of a more detailed knowledge of the ability to pay.[188] For unions, the changes of date were sometimes to make the wage leadership process work more effectively: for example, certain weaker groups, such as the university manual workers, removed themselves from the vanguard, preferring to follow stronger groups than attempt to spearhead an attack on pay restraint.[189] Others moved in order to increase collective or individual union power. This was partly behind the NHS changes in CL2, whereby, in accordance with the TUC Health Services Committee plan discussed earlier, NHS groups forged a common settlement date. The National Union of Mineworkers (NUM), meantime, negotiated an earlier date so any action would take place in the winter (rather than the spring) when they were more powerful.[190]

In practice, the effect of the order on pay settlements appeared marginally positive at most. First, the wage leadership process did not produce significant wage inflation. In the public services, the local authority manual workers were still the first major group to settle. Since they were not particularly powerful or militant, the precedents set were not unduly inflationary. The TUC PSC saw the CL2 settlement as poor.[191] The following year, although the settlement was close to 7 per cent, given a 4 per cent pay factor, the employers argued that there special circumstances existed, and later settlements were accordingly lower.[192] In

CL4 the manual settlement, as in CL2, was not much above the pay factor. In the public corporations, although the miners moved to the front of the line and set relatively high increases, groups outside the energy and utilities sector showed little inclination to match them.

Second, collective union power may have been increased by the greater concentration of settlements in April, but in very few cases did it seem to affect settlement rates. As noted in the context of inter-union coordination, the TUC believed that the NHS strike could not have achieved what it did without a common settlement date.[193] That may well be true, but the pay rises eventually negotiated were little above the initial pay factor or the pre-strike offer. A further point to note is that in spite of the trend towards an April settlement date, there remained a great amount of diversity, dampening union power. In local government, for example, the fire service and manual workers settled in November, education staff in April, and other white-collar staff in July. Public corporation settlement dates were even more variegated, and defy simple summarisation.

Third, there is little evidence that, individually, unions successfully raised pay settlements through the use (or threat of use) of power that was primarily dependent on the timing of negotiations. Even in the miners' case, there is no obvious sign that the earlier date had any effect in the period: their power was respected whatever the date of settlement. In fact, some of the changes of date actually reduced individual union power. For example, the university groups which moved to April gave up their ability to disrupt the academic year, apart from maybe at its tail-end.[194] In general, the greater number of spring settlements made usually more-damaging winter action less probable.

	No. of agreements	End of Phase 4	End of CL4
Central Government	9	85.5	85.6
Local Authorities	13	86.2	87.5
Public Corporations	23	77.4	78.8

Table 7.4: Basic pay and allowances as a percentage of average gross weekly earnings for adult males in 1979 and 1983

Note: Where the CL4 data were not available, CL3 figures were used instead.

Source: Adjusted NES data. (For method see Chapter 5).

3.4 Payment systems

While other pay determination procedures were adding to wage increases, albeit mainly in a mild and decreasing manner, payment systems were on the whole working to reduce pay increases, as the statistical analysis in Chapter 5 indicated. Several reasons are apparent.

First, whatever the efficacy of the pay systems, there was relatively little opportunity to raise pay outside negotiations through changes in the level of overtime, bonus or shift pay, owing to the continuing high proportion of basic pay in total earnings. In fact, during the era of cash limits pay restraint under study, the percentage actually increased by a small amount in each of the three major subsectors of the public sector. Table 7.4 reports the arithmetic averages for agreements reported in the NES both at the end of Phase 4 and at the end of CL4. Disaggregating, 15 of the 45 agreements exhibited increases of over 3 percentage points, and in 11 of the 15 cases, the basic pay element rose. Typically, non-manual groups continued to receive over 90 per cent of their earnings in basic pay, manual workers approximately 70 per cent.

Second, independent of demand conditions, pay systems were operated more cost-effectively as time passed. Overtime became particularly subject to control due to its pre-eminence as an addition to basic pay. The NHS, AEA and BRB each reported an attempt to control overtime in order to meet budgetary constraints.[195] The NWC took steps to reduce overtime and replace it with stand-by duty payments.[196] The PO and BSC introduced productivity schemes partly in order to lower the incidence of overtime.[197] At the behest of the SCPC, a similar ploy was used to reduce manufactured overtime by local authority manual workers and, especially, ambulancemen.[198] The significance of these reforms is seen in the fact that each of these groups was among those cited in Chapter 5 as experiencing sizeable reductions in overtime hours and employee coverage.

Incentive schemes were also tightened up in some sectors. Local authorities were the most notable example. Employers' sides requested that local authorities carry out thorough reviews of all schemes.[199] To give an incentive, the bonus calculator on existing, unreviewed, schemes was not allowed to increase, while reviewed schemes were geared to a higher calculator.[200] This policy was stimulated by a number of reports that pointed to problems and also by internal and Government criticism. The Chief Inspector of Audit, like the SCPC, noted that as basic rates approximated those of the private sector, bonuses should only be paid for performance reasons. In practice, the level of bonus payments had implied that exceptional work was widespread, or, more likely, the principles of the code were not being respected. It was advised that the schemes be reviewed and pruned.[201] The Advisory Committee on Local Government Audit reiterated specific problems of control.[202] Internally, employers were aware, too, that in building-craft areas, as much as 48 per cent of the calculator was being earned on average, whereas a third was standard performance.[203] A Ministerial letter to the local authority associations urged a review of schemes in the light of the various reports.[204] The direct labour legislation embodied in the Local Government Planning and Land Act 1980 reinforced the pressure. Outside local government, BGC wound down three of its regional schemes for non-manual workers.[205] In the industrial civil service, greater attention was paid to ensuring that schemes were self-financing.[206] These management strategies account for the observation in Chapter 5 that local authority building and civil engineering workers and BGC non-manual workers were two of the three groups with the largest losses in pay emanating from incentive schemes.

Management control was also evident in many schemes even where there had been no reforms. Therefore, the bonus increases earned by other groups - 0.5 per cent an average according to Chapter 5 - should not be regarded as necessarily inflationary. For instance, the payments in BS, where they occurred, were self-financing.[207] It has to be admitted, however, that deficiencies were evident in, for example, certain NCB schemes and some universities, and remained in some local authorities.[208]

A final reason for the constraining effect of pay systems on earnings was that demand conditions were poor. Independently of any increase in management control, there was less need for extra hours or extra productivity. For example, the big losses in overtime pay in municipal road transport and by NCOI employees reflected the large reductions in transport mileage in the recession. Also, where bonuses were related to corporate results, output and profit indicators were sometimes sluggish.[209]

4. Reasons for Institutional Restraint

The argument of the chapter has been fourfold. First, the operation of the cash limits pay restraint policy was facilitated by the institutional environment generally transmitting financial pressures to the bargaining area relatively unimpaired. This was especially true of the organisational characteristics of management which enabled the Government to exercise vertical control and financial interests a degree of horizontal control. Bargaining structure played a part too, particularly because of centralised bargaining levels and high unit concentration, but also because of the precise form of agreements and the inclusion of productivity improvements within the scope of bargaining.

Second, at the same time, there were isolated, yet sometimes significant exceptions, which frustrated the effects of policy. These arose mainly due to pay determination procedures, especially the formal criteria used in pay links and by the SCPC and PRU, but also third parties such as Review Bodies and arbitrations and inquiries. Union organisation and the structure of the pay round were generally less influential.

Third, not only did the institutional environment facilitate the pay restraint policy, it also had an independent depressing effect on pay rises as time proceeded. This was caused by reforms to the organisation of management, which resulted in closer control of negotiators, and by changes to pay determination procedures, particularly the abolition of the SCPC and PRU, the greater cognisance taken by other third parties of the ability to pay, and the tightening up of payment systems.

Fourth, inter-sectoral differences in pay increases can be explained in part by the facilitating and independently causal role played by the institutions surrounding pay determination. Central government negotiators were subject to the greatest organisational constraints, public corporations the least. Bargaining structures enabled these constraints to be experienced by negotiators. Pay determination procedures in fact reduced control in the public services the most, but that sector saw the most significant reforms, so that it was barely better off than the public corporations sector.

In sum, the institutional environment played a key role. It appears that the institutional context was more important than under conventional incomes policy. Unprecedented efforts were made to ensure the complex of structures and processes were appropriate to the successful control of pay determination. To be sure, changes had occurred in previous eras: witness, for example, the upsurge of productivity agreements in the second half of the 1960s, the supercession of PBR schemes by MDW, job evaluation and plant-wide productivity schemes in the late 1960s and 1970s, the increased specialisation of personnel management, and the periodic alteration or suspension of institutionalised criteria.[210] However, the motivation was not always pay control and attention was often directed at only a part of the institutional environment. This contrasts with the 1979-83 experience when the whole environment was scrutinised to ensure it was compatible with the control of pay increases.

Two questions therefore require answers. First, why was the institutional environment used to restrain pay? Second, why did the cash limits pay restraint policy see more institutional restraint than previous forms of policy?

At a superficial level, it is clear that the economic-political environment provided inducements or directives to establish a suitable institutional context for pay control. In the first place, as Chapter 6 showed, it produced stringent financial constraints for most authorities, which created a general incentive to restrain pay. One option was to use the institutional context.

Secondly, the political market surrounding pay bargaining favoured institutional restraint. The distribution of power benefitted the Government due to its formal role in authorities, or the dependency of organisations on it. Through formal and informal mechanisms it was able to exercise vertical control over negotiations to varying extents. It influentially suggested the reform of arbitration access, and put pressure on the Review Bodies. Directly, it abandoned comparability through the abolition of the SCPC and the PRU. Also, within their own organisation, where they were all-powerful, managements were free to decide on optimal structures and processes. Finally, the political market allowed the free expression of suggestions for reform by independent parties such as the SCPC and the Chief Inspector of Audit.

But such an explanation is too facile. While it shows that authorities had a general incentive to control pay, it does not explain why the institutional context was used, rather than simply hard bargaining in the light of financial exigencies. Also, it does not explain why the Government would want to encourage this approach.

The explanation therefore requires refinement. This can be achieved by taking into account additional characteristics of the economic-political environment, other than its harshness. First, the potential for loss of control must be considered. Organisational behaviour researchers have shown that environmental complexity, change and uncertainty prejudice control. Complexity increases the amount of information required to make decisions; processing that information becomes more difficult, and the risk of error increases.[211] Change requires the updating of information on which decisions are made.[212] Tardiness can cause problems. Uncertainty increases the amount of information required to make a competent decision; without it, control is not assured.[213] To prevent a loss of control, suitable organisational characteristics are needed.

In the context of cash limits pay restraint, the complexity, change and uncertainty of the economic-political environment appear to have been pertinent to the choices of institutional frameworks preferred by employers and Government. Public sector authorities certainly faced a complex environment, with a range of different political and economic pressures, and with even more financial exigencies. Complexity was most pronounced in the nationalised industries, where attention had to be paid to EFLs, and other governmental restrictions, prices, and the likely development of demand. But even in the public services a plurality of factors, notably cash limits, non-pay expenditure, and employment levels, was germane. Moreover, many of these factors were prone to vary, especially demand, but also public spending levels. Uncertainty was evident in that expenditure provisions for the following financial year were generally unclear and demand was always likely to vary. As a result of these environmental characteristics, the appropriate level of pay increase was far from clear. Mistakes could easily be made.

Given this situation, it is not surprising that institutional restraint occurred. By controlling negotiators more within the management structure, the danger of overgenerous pay offers was reduced. Centralised, concentrated and formal bargaining structures reduced the chance of errors by decentralised management. The reform of pay determination procedures lessened the likelihood of problems caused by independent bodies which were out of touch with financial details and by formal criteria which disregarded them completely.

The explanation is further improved by the recognition that environmental characteristics apart from stringency affect the urgency and intensity with which institutional restraint is pursued. Of importance are the specificity of the constraints, and their flexibility and permanence. Institutional restraint is needed more where the environment does not control pay increases specifically, yet imposes more general constraints that must be respected. It is also more likely where environmental exigencies are inflexible, so that errors in pay decision-making have definite repercussions on other expenditures. Permanent, or semi-permanent, environmental constraints are also likely to foster institutional restraint because other, unstructured, means of control probably have a shorter longevity.

Under the cash limits pay restraint policy, there was no specific control of wage increases by the Government; rather, there were more general budgetary constraints. Hence it fell to the individual authority to control pay increases. Its own internal structures and processes had to be involved to a greater extent, even if hard bargaining was a major tactic to keep within the cash limits. Further, since the policy was viewed as inflexible by most authorities, and non-pay expenditure reductions were disliked, where there were inflationary pay determination procedures and bargaining structures the combination of budgetary control and hard bargaining was potentially inadequate. Control demanded that procedures not be costly. The apparent permanency of the stringent and inflexible financial constraints also led managements to ensure that bargaining structures and pay determination procedures were suited to the long-term restraint of pay growth.

Having analysed the reasons for the restraint exercised by the institutional context, it is plain to see why it was more extensive than under conventional incomes policy. While the capacity of the economic-political environment to pay increases was certainly limited under incomes policies, many other environmental characteristics differed.

First, in the political market, governments were primarily concerned with administering the pay limits rather than establishing an appropriate institutional context. Only isolated instances of institutional change were seen, as noted earlier. Independent bodies had little to say on appropriate structures, apart from the NBPI in the 1960s and the Commission on Industrial Relations (CIR) in the early 1970s.[214] Furthermore, Labour and Conservative governments were generally willing to listen and respond to union views. The position of the unions was also stronger at Government and authority level because the whole point of incomes policy was to reduce inflation without raising unemployment. Reform to contain unit labour costs was therefore made less likely.

Second, the financial constraints produced by the economic-political environment were different from under cash limits pay restraint. Pay limits were far from complex, changeable and uncertain. Consequently, there was less need to organise management so as to provide more input to pay decisions. Loss of control was unlikely, even with an autonomous industrial relations function.

Third, the environmental constraints were of a kind that did not demand institutional restraint. Since external control of pay increases existed, there was no need to reform internal control systems. In addition, while the pay limits were seen as inflexible, incomes policies were always seen as relatively short-term rather than permanent. Hence there was no perceived role for institutional change to produce less inflationary procedures; temporary suspensions of the PRU and abatements of Review Body recommendations, together with hard bargaining backed by incomes policy, sufficed.

Of course, the emphasis on restraint through the institutional context is not to suggest that hard bargaining was unimportant. Indeed, it played a major role within the economic-political and institutional environments: hence the next chapter is devoted to the analysis of the bargaining strategies of management and unions.

Notes

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3. Interview with MoD official.
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20. Interviews with DHSS officials.
21. Interview with CVCP official.
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38. Interview with ADC official.

39. Interview with NWC official.

40. Interview with PO official.

41. Interview with LTE official.

42. Interviews with officials from the BBC and PO.

43. Interview with NWC official.

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45. Interview with BBC official.

46. Interview with GMWU national officer.

47. Interviews with BT official and POEU and NALGO national officers.

48. Interviews with PO official and NALGO national officers.

49. Interview with GMWU national officer.

50. Interview with NCB official.

51. Interview with NWC official.

52. Interview with BT official.

53. For instance, interviews with NCB and BSC officials.

54. Interviews with LTE officials.

55. Interview with BBC official.

56. Interview with BRB official.

57. Interview with EMA officer.

58. Interview with NALGO national officer.

59. Interview with NCB official.

60. Interview with PO official.

61. Interview with BT and BBC officials.

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Chapter 8

Negotiators' Strategies Under The Financial Pay Restraint Policy

Acting within the financial and institutional environments, public sector negotiators pursued strategies which led to the de-escalation of pay increases. Although the environments were frequently confining, negotiators had an important independent influence on pay settlements through the precise choice and weighting of pay determination criteria, the exercise of bargaining power, and the politics surrounding wage decisions.

The first three sections of this chapter assess the role of these three factors in situations where negotiators had a part to play - in other words, where pay was not set by a third-party or with reference to a formal criterion. The fourth section summarises the thrust of the argument.

1. Pay Determination Criteria

In mid-1979, the dominant themes in pay bargaining had been comparability and the cost of living, with public sector groups seeking to make up some of the lost relative and real income that had been suffered due to the Labour Government's 1975-79 incomes policy. In contrast, in the cash limit pay restraint policy era the ability to pay assumed a primary role in the determination of pay increases. Comparability and the cost of living were generally very much subordinate criteria, save in the remaining catch-up settlements of CL1. Lower pay rises were thereby induced. Partly, the switch was made imperative by the financial climate, but partly it reflected the negotiators' strategic choice.

1.1 The ability to pay

The ability to pay was the chief consideration in most negotiations. The correlation noted in Chapter 6 between the financial constraints and pay increases was definitely a causal relationship and not a statistical artefact. It is true that the financial constraints did not rigorously define the ability to pay: there was room for discretion. Apart from attempting to increase governmental or internal finance insofar as the constraints would allow, it was possible to increase the pay budget of a particular bargaining unit by reallocating finance between pay and non-pay expenditure budgets, (subject to the labour cost--total cost ratio), or between bargaining units; by staging or deferring agreements; or by trading off employment for pay. Nevertheless, negotiators chose not to "stretch" the ability to pay too much as is illustrated by the relatively close adherence to the pay factor.

In central government, settlements generally only exceeded the pay factors by a fraction, as Chapter 5 showed. Thus the financial constaints were largely respected. The flexibility came from reductions in non-pay expenditure and employment. For example, the non-industrial civil service CL1 pay settlement explicitly recognised that staffing levels would be cut by 2-3/4 percent, and that additional finance would therefore be available to help fund the 18.75 per cent increases under the 14 per cent cash limit.[1] Where agreements did not explicitly say how the finance would be raised, job and non-pay spending cuts were the usual means of raising money. For instance, after the NHS dispute, the Health Authorities were obliged to make savings to cover the cost of the settlements over the pay factor.[2] Apart from these sources of finance, however, negotiators usually lived well within the constraints. Supplementary finance was not generally available. Cash limits on government finance were not overspent. The staging and deferral of agreements occurred to some extent in CL1, such as in the civil service, but was less common thereafter, being limited to groups such as the universities in CL2 and selected units in the NHS in CL2 and 3. Nor was any group made to accept increases below the pay factor in order to finance the increases of another, although there was a small degree of differentiation between groups.

Local authorities, similarly, did not experience pay rises far in excess of the pay factor. Up to a point, negotiators were prepared to see rates increase due to settlements, (as might be inferred from the financial analysis in Chapter 6.) They were also willing to reach settlements that implied some employment and service cuts. For example, in the CL3 manual worker settlement, the excess of the 6.9 per cent increases over the 4 per cent pay factor was supposed to be financed by the savings from employment reductions over the previous year: they were not to be put back into higher employment or more services.[3] However, it is worth underlining the fact that negotiators were stretching the ability to pay at the margin rather than ignoring it. Indeed, they rarely opted to stage agreements, or to benefit one group at the expense of another.

Public corporations, it will be recalled, on the whole received higher settlements than the public services. This was not primarily due to a greater disregard for the ability to pay: it was caused by the financial constraints themselves being looser in general. However, as in the public services, negotiators were prepared to stretch the ability to pay somewhat. For example, relatively high pay increases were negotiated even in industries where prices were already uncompetitive, such as in BSC in CL1, and where loud complaints were heard about inadequate investment funds, such as in the ESI, BGC, BT, PO and BR.[4] At the same time, staging and virement between budgets were seen only infrequently. Also, pay-employment trade-offs were not as evident as in the public services.

While the ability to pay was obviously taken seriously, it should be said that it was not generally debated in negotiations in depth.

Management usually stated in broad terms that its ability to pay was limited and made a few general references to the constraints it faced. The NCB produced profit and loss accounts, but that was unusual.[5] The typical union response was to say that it was management's job to find the finance.[6] There was a marked reluctance to argue in detail that the claim could be afforded. The local authority and NWC manual workers did offer analyses of the financial position, but in this they were distinguishable from others who envisaged problems with this approach.[7] First, it was believed to be difficult to argue that the ability to pay could meet the union's claim. As one BA union officer put it, there was no point in a financial analysis when BA was making a loss.[8] Commonly, union officials knew they could not deny employer counterarguments spelling out the impact of government spending cuts and inadequate inflation provisions.[9] Second, unions realised that they would get out of their depth very quickly in discussing financial issues with which management was professionally involved.[10] Third, some unions feared that to even argue about the ability to pay would validate the criterion and allow management to feel even more justified in using it on other occasions.[11] Finally, certain unions wanted to ensure that their members did not see them agreeing that the financial situation was grave and that low increases were in order.[12] As a result, unions tended to argue their claim on other grounds, although, through concessions, they implicitly acknowledged the importance of the ability to pay.

In order to understand why the financial constraints were interpreted relatively closely, albeit implicitly, it is necessary to explore the attitudes of negotiators towards each of the different influences on the ability to pay. Essentially, apart from where negotiators were coerced by the economic and political markets or by force of circumstance, respect for the constraints was rooted in normative or calculative considerations.

The ceilings on government finance did not allow negotiators any room for interpretation. As seen in the discussion of the political market environment, the government enjoyed a powerful position in the planning and control of expenditure, and was able to impose limits on finance it directly or indirectly provided.

For the most part, the attitude of management and unions was one of resignation due to the distribution of political power. Both parties thought that increases in government finance were out of the question. Hence, little thought was given to attempts to secure additional funds. One manager commented that more time was spent trying to increase the provision for the following year, since it was still at the planning stage.[13]

In other words, coercion was the reason for compliance by negotiators: there was no consent in most cases. In negotiations management did not seek to justify the cash limit constraints. Most would have preferred to have more financial freedom, although some believed that it was their duty to support the Government's policy.[14] On the union side, the predominant view was that cash limits should accommodate pay increases,[15] although certain unions argued for their complete abolition.[16] If there was any acceptance, it was due to the knowledge that similar pay factors applied across major sectors.[17]

The financial constraints on other sources of finance were not exploited to any severe extent for a combination of reasons. First, in central government, negotiators were coerced into accepting that they could not rely on significant amounts of additional finance, if any at all. Key was the power of the Government to enforce the public expenditure rule that most receipts were to be remitted to the Consolidated Fund.[18] Even where authorities had limited revenue-raising powers, circumstances placed practical limitations on the proceeds. For instance, in the NHS voluntary contributions and lotteries could not be counted on to provide more than a very small fraction of the budget[19]; while where sales were made, such as in the BBC or through contracts held by manufacturing operations in the industrial civil service, demand was largely exogenous.[20] Further, uncertainty regarding the future amounts of internally-generated funds caused negotiators to adopt a prudent approach.[21] It should also be mentioned that the union side, in particular, had a strong principled objection to raising private finance to fund public services.[22] In the NHS, for example, unions were vociferously opposed to higher prescription charges and pay beds.[23] In addition, it was believed inappropriate to raise fees which might choke off demand for a public service. For instance, unions were unhappy with the prospect of increases in overseas student fees in universities.[24]

In local authorities and public corporations, where the financial constraints on rate and price increases did not coerce negotiators into accepting an inflexible amount of internal finance, calculative motives in conjunction with the financial constraints, caused restraint in bargaining: both sides realised it was in their interests to refrain from making settlements that would have required excessive increases in prices or rates. Local authority negotiators bore in mind both political and economic incentives. Politically, negotiators, especially on management sides, were sensitive to the implications of pay deals for rates. Concerns to be mentioned included the fear that industry would move,[25] and that there would be an electoral backlash, especially in small districts where most receipts were to be remitted to the Consolidated Fund.[18] Even where authorities had limited revenue-raising powers, circumstances placed practical limitations on the proceeds. For instance, in the NHS voluntary contributions and lotteries could not be counted on to provide more than a very small fraction of the budget[19]; while where sales were made, such as in the BBC or through contracts held by manufacturing operations in the industrial civil service, demand was largely exogenous.[20] Further, uncertainty regarding the future amounts of internally-generated funds caused negotiators to adopt a prudent approach.[21] It should also be mentioned that the union side, in particular, had a strong principled objection to raising private finance to fund public services.[22] In the NHS, for example, unions were vociferously opposed to higher prescription charges and pay beds.[23] In addition, it was believed inappropriate to raise fees which might choke off demand for a public service. For instance, unions were unhappy with the prospect of increases in overseas student fees in universities.[24]

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Public corporation negotiators were wary of agreeing pay increases that would have boosted prices and threatened services and jobs. For instance, London Transport negotiators were anxious to avoid increases that might have substantially raised fares and reduced ridership because bus and rail travel was seen as a public service.[27] In BAe, BA and the bus transport sector it was realised that greater product market competition and falling demand prevented significant rises without substantial job consequences. One union negotiator said, with resignation, that the bus industry was 'a dead duck'.[28]

The leeway afforded by the labour cost-total cost ratio to reallocate funds between pay and non-pay budgets was not substantially exploited to avoid the pressure of the financial constraints on the overall amount of finance for a variety of reasons. First, there were other coercive influences which made it unrealistic for most negotiators to assume that significant virement could take place after a high settlement. Much non-pay expenditure was commonly necessary. For the authorities to operate, they required factor inputs other than labor. For example, negotiators in the Primary and Secondary Burnham Committee realised that education budgets had to devote large sums to the purchase of new textbooks and school maintenance.[29] Expenditure was frequently committed in advance, too. For example, in the NWC, where investment spending was large relative to pay budgets, virement was limited because approximately 85 per cent of investment spending was committed a year ahead.[30] Furthermore, as time progressed, authorities found less and less scope to make economies because progressive cuts in budgets had eliminated most of the 'fat' that had existed.[31] For instance, BA felt the pressures of competition more intensely because it had already sold off its terminal in London, closed offices, and dispensed with company cars.[32]

A normative commitment to maintaining non-pay expenditure was also widely evident among negotiators. Both management and union negotiators wanted to keep services at least at their existing levels. Sometimes it was for social reasons: for example, NHS unions were anxious to increase patient services, and so did not want to force health authorities to have to draw on the growth money allotted by the Government.[33] For some others, it was encouraged by a professional ethic, as in teaching; or by a dedication to the authority, as in the BBC where a high esprit de corps brought with it a desire for quality programming.[34]

Calculative motives were also behind the reluctance to reduce non-pay spending. Unions, in particular, were concerned lest the effect of cutting equipment or services would be reduced employment levels.[35]

The remarkable dearth of instances of reallocations of funds from one pay budget to another was mainly the result of the normative stance of unions and the calculative attitudes of management, although it is true that the size of some groups' budgets relative to others, in the authority, such as nurses' pay in the NHS, coercively prevented any serious thought of virement.[36]

There were four normative justifications proffered by unions. First, it was believed unfair to do anything other than give equal percentage increases across groups in the same authority, especially as the ability to pay was limited, and other groups were not always well-paid.[37] For example, the relatively higher increases awarded to doctors and dentists by their Review Body particularly irked the other NHS unions because pay factors were conservative and doctors and dentists were highly paid.[38] Second, it was deemed ethically reprehensible to adopt a policy of 'dog eat dog'; mutual union survival was the dominant goal.[39] Third, unions were concerned at the general level of unemployment, and felt it was socially inappropriate to reach agreements that might increase unemployment in other bargaining units.[40] Fourth, as will be discussed in more detail in a later subsection, strong intra-authority pay comparisons promoted similar pay increases.[41] These four normative views were pressed particularly hard in negotiations because of two features of pay determination. Inter-union rivalry caused different unions or, in the case of the NHS, different Whitley Councils, to strive for the same increase.[42] Cooperation between unions, or connections between negotiation bodies, such as where the same national officer sat on different bodies, also encouraged similar pay objectives.[43]

Managements' calculative rationales for equal increases related to industrial relations and labour market objectives. First, in order to avoid labour relations problems it was felt judicious to recognise that unions were competitive and had equity concerns, and hence to negotiate similar settlements.[44] Second, certain employers feared that different pay increases might cause unions to reopen agreements and commence a leapfrogging spiral.[45] Third, since each negotiating panel within an authority generally wanted the largest percentage increase possible, in order to resolve problems with pay structures and pay systems, as well as give a general increase, equal increases resulted.[46]

Staging was not often used to circumvent the financial constraints after CL1 mainly due to Government coercion and management calculation.

After criticism of the delayed CL1 civil service pay settlement by the Treasury and Civil Service Committee, the Chancellor stated:

> The Government thinks it desirable for the future to avoid the delay or staging of awards, and will avoid it where it is itself the employer.[47]

Thus where the Government was represented in negotiations, staging was refused. Elsewhere, the threat that the Government would not finance higher expenditure bases due to staged pay increases was sufficient to deter most managements from staging. They were daunted by the cuts in employment and services that would be implied.[48] Some did not believe they could make the necessary economies to keep within budgets.[49] Union views were pragmatic too, but, with different interests, on occasions they were prepared to countenance staging to a greater degree where the importance they attached to other objectives outweighed the employment and service costs.[50] To a lesser extent, there was normative opposition to staging. Some managements thought staging was dishonest and cheated the taxpayer out of value-for-money.[51] Several unions reported that their members wanted straightforward settlements on the due date, whatever the cost in lower increases or cuts in jobs and services.[52]

Finally, negotiators were generally loathe to boost pay increases far above pay factors if it meant that employment would be reduced. Dominant were normative motives. First, there was a concern with creating more umemployment in an economy which was already underemployed. Unions felt that they could not afford to be seen to be party to agreements that reduced employment opportunities further.[53] Management also voiced concern, albeit to a lesser extent.[54] Second, employers were more worried about the effects of employment-pay trade-offs for their ability to provide services and meet contractual obligations.[55] Third, some managements did not think that it was appropriate to have unions effectively share in the determination of employment levels; it was felt to be a management prerogative.[56]

Calculative motives were apparent in addition. Unions noted that unemployment was generally high and that alternative jobs were not easy to find. For instance, the NHS pnarmacists were acutley aware of the growing unemployment of the so-called High Street pharmacists.[57] In the industrial civil service, as in other skilled manual groups, unemployment was particularly feared due to the difficulty of searching for a job in a narrowly-defined craft.[58] From the viewpoint of the union as an institution, negotiators were also conscious of the effect of trade-offs on union membership and income.[59] Management realised that its interests lay in maintaining employment and therefore services, not just because it could thereby meet its objectives to a greater degree, but also because it implied larger units to manage, with the consequent income and status implications.[60]

Where trade-offs were seriously considered, there were usually coercive constraints preventing significant increases. As in the context of pay - non-pay substitution it was difficult to make cuts where authorities had been under financial pressure for some time; or where large cuts were needed to achieve the desired pay levels.[61] Both conditions applied, for example, in CL1 in the industrial civil service, where the PRU results revealed that increases far in excess of the pay factor would be necessary to achieve pay parity. The negotiators agreed that the increases could not be paid because the savings could not be made due to their size and the lack of significant organisational slack.[62] It was similarly hard to envisage employment cuts being possible where relatively fixed ratios of employment to service levels existed, such as in personal health care and teaching, where there was, respectively, a one-on-one doctor-patient relationship and specified teacher-pupil ratios.[63]

To the extent that trade-offs occurred, they tended to be in situations where the normative and calculative imperatives were weakened by circumstances. First, where employment cuts were going to happen in any case, or had happened, unions were content to reap some of the financial gains, while management were clearly not as concerned about service levels. This was explicit in the CL1 non-industrial civil service pay deal, for example, and also the CL3 local authority manual worker settlement.[64] Second, where it was not certain that unemployment would result, unions were sometimes prepared to negotiate higher increases, arguing that management could make economies in other ways, if necessary.[65]

In total, there were coercive, normative and calculative forces promoting acquiescence in the financial constraints, and allowing them to influence the decline and pattern of settlements over the 1979-83 period. The extent to which they were stretched by negotiators reflected the power of those forces in conjunction with the other criteria of pay determination tc which attention now turns.

1.2 Comparability

The comparability criterion did not play such a significant role in negotiations under cash limits as in catch-up increases at the end of the Labour Government's incomes policy. Nevertheless, it was still a pertinent influence on pay increases. Essentially, the kinds of comparisons made changed in the face of the financial constraints on the ability to pay, breeding lower increases than would have been attained under former versions of comparability, and aiding the counter-inflationary effort of the

Government. In Ross's terms, the ability to pay was a centrifugal force in the process of comparisons, overriding some of the centripetal forces, and reducing the orbits of comparisons. As Ross noted in a more general context:

> Comparisons exert a centripetal force, pulling separate wage bargains together into a system. Ability to pay is often centrifugal, since no two employers are situated exactly alike from the standpoint of financial capacity. . . .Even within a customary orbit, (comparisons) are sometimes superseded by more compelling considerations, especially differences in ability to pay.66

1.2.1 Public services

Table 8.1 records the orbits of comparisons in the public services and corporations as revealed by interviews and bargaining records. They are categorised into, first, economy-wide or private sector comparisons; second, external relativities within the public sector, (that is, orbits linking different authorities); and third, internal relativities, (that is, comparisons with other bargaining units in the same authority). The points of comparison appearing in brackets had previously been important in pay determination, but, when proposed under cash limits, were rejected in one or more, but usually all, rounds.

As Table 8.1 shows, economy-wide or private sector comparisons were brought up in negotiations, particularly by the union side, but in most cases they were rejected. Employers were not prepared to maintain relativities set by the SCPC or any other standing body, nor to keep pace with the average earnings index.

Bargaining Units	Economy-wide/ Private Sector	Public Sector External Relativities	Internal Relativities
	Orbits of comparison		
Central Government			
Non-industrial civil service (NICS)	(PRU sample)		
Industrial civil service (ICS)	(PRU sample) local comparators		NICS
NHS electricians	(elec. contracting ind.)		
other craftsmen			NHS electricians
ancillaries	(SCPC relativities)	LA manuals	
admin/clerical		(NICS)	other NHS
nurses/midwives		(NICS, doctors and dentists)	other NHS
PT(A)			nurses and midwives
PT(B): technicians		(NICS scientists)	
MLSOs		(NICS scientists)	
work staff		(NICS prof. and tech.)	
pharmacists		(NICS scientists)	
Universities:			
technical	priv. sec. tech.	(ICS, NHS, academics)	
clerical		(NICS, LA clericals)	
manual		(NHS, LA manuals)	
AEA: manual	engineering, chem.	nationalised inds.	
non-manual		NICS	

Bargaining Units	Orbits of comparison		
	Economy-wide/ Private Sector	Public Sector External Relativities	Internal Relativities
Local Authorities			
Manual workers	(SCPC relativities)	NHS ancillaries	
Craftsmen	(private sector)		similar LA jobs
White-collar workers	(av. earnings index)	(NICS, other NALGO)	other LA groups
Teachers:			
prin. and sec.	(Houghton, SCPC relativities)	(NICS)	other LA groups
further educ.	(Houghton relativities)	(NICS)	prim. and sec. teachers
Public Corporations			
Energy and utilities:			
NCB miners		More than others	
other			NCB miners
BGC manuals		NCB miners	
non-manuals		other energy groups	BGC manuals
management		NICS	BGC non-manuals
ESI manuals		NCB miners, BGC manuals	
non-manuals	av. earnings index		ESI manuals
NWC manuals		NCB miners, BGC, ESI manuals	
non-manuals		LA manuals	NWC manuals

Bargaining Units		Orbits of comparison		
		Economy-wide/ Private Sector	Public Sector External Relativities	Internal Relativities
Communications:				
PO	UCW		BR, NBC, NCB manuals	Other PO groups
	CMA		BT	
BT	POEU	engineers	engineers	
BBC		(IBA)	NICS	Other BBC unions
Transport:				
BA			general	
BAA			general	
BRB		(Oct. Earnings Survey) (1974 relativities)	NCB miners, BT engineers, dockworkers	
LTE	buses		BRB	LTE rail
	rail		BRB, LA manuals	
PTE	manuals	(road haulage)	LA groups	
	non-manuals		LA white-collar workers	
BWB		(SCPC)		
Manufacturing:				
BAe		local firms, EEF	general and civil service	other divisions
BSC			(general)	other BSC unions

Table 8.1: Orbits of comparison in public sector pay negotiations under the cash limits pay restraint policy 1979-83

Notes: ( ) denotes comparison repudiated during all or part of period

Sources: Interviews and records of negotiations.

Some other specific private sector comparisons were also abandoned. It should be pointed out, however, that in spite of the relative lack of public-private comparisons, the public sector did not appear to lose substantial ground, at least on the average. Table 8.2 illustrates. It shows the gains and losses in pay in public subsectors relative to the private sector over the 1979-83 period. Although each sector has a different proportion of settlements negotiated under the policy current in April, and staged payments of comparability awards are included in the 1980 and 1981 figures, it is clear that the loss of relativity since the peak relative position was not substantial, in the sense that the gain due to catch-up awards was far from wiped out. Central government suffered most, but lost only 6.1 points of the 10.5 gain, while local authorities lost 3 points against a 9.3 point recovery. Of course, while this was true of workers on average, certain groups did suffer more significant losses of relativity vis-a-vis their private sector counterparts. Non-manual workers fared worse, it appears, especially in central government.

At the same time, the orbit of external relativities was less influential. In particular, comparisons with the non-industrial civil service were repudiated. Notably, the informal link between administrative and clerical workers in the NHS and in the civil service was broken after twenty years. Also, the informal links between professional and technical staffs in the NHS and the civil service were broken.

As a result, where pay comparability was a relevant consideration in the public services, it related to pay within authorities. The going rate within the NHS and within local authorities took on extraordinary importance. After the first settlement in each, groups were mainly concerned with achieving similar deals. Comparisons with

Sector	Percentage point changes in public sector pay relative to private sector pay	
	Gain in relativity: 1979 to peak	Loss in relativity: peak to 1983
Manual and non-manual men		
Central Government	10.5	6.1
Local Authorities	9.3	3.0
Public Corporations	4.5	0.7
Manual men		
Central Government	10.4	1.4
Local Authorities	7.4	0.5
Public Corporations	8.0	0.5
Non-manual men		
Central Government	8.4	9.6
Local Authorities	9.2	5.1
Public Corporations	6.7	1.6

Table 8.2: Percentage point changes in public sector relative to private sector adult male average gross weekly earnings under the cash limits pay restraint policy 1979-83.

Notes: Figures are based on April data and include staged catch-up increases at the date of payment.

Source: Derived from *New Earnings Survey*, DE, various issues.

rises in the same round and under the same financial circumstances relieved much inflationary pressure. Looking farther afield to authorities where the capacity to pay was greater, and back to increases gained by comparators in previous rounds would have been much more inflationary.

The reasons for the narrower orbits of comparison were plainly related to financial pressures. Under the range of controls associated with the cash limits authorities could not always afford the increases paid in other public or private sector organisations. Private sector pay negotiators operated under the confines of monetary policy rather than the cash limits policy, while, as demonstrated in Chapter 6, the cash limits policy itself had a varying effect across the public sector, with the result that the capacity of authorities to fund pay increases was not identical. Thus in CL1, the NHS Administrative and Clerical Whitley Council Management Side said that it could see no basis on which it could fund increases that maintained the civil service link.[67] The same reasoning also explains the other fractured links between the two services.[68]

Financial constraints also prevented the restoration of relativities vis-a-vis points of comparison to have received increases under previous pay policies: there was generally only sufficient money to match the current going rate. For example, the industrial civil service PRU exercise in CL1 in 1980 showed that increases elsewhere over the previous year, which included some of the large catch-up increases of Phase 4, had been around 25 per cent. There was no attempt to match the comparators due to the 14 per cent pay factor.[69] In a similar fashion there was no way authorities could maintain relativities established by standing bodies or move to re-establish historically preferred relative positions.

Internal relativities did not simply come to dominate comparability discussions due to financial imperatives, but also due to normative forces. There was a strong sentiment that some degree of comparability was appropriate, even if it was limited to intra-authority orbits.[70] This was reinforced by a belief that there should be 'equality of sacrifice': if pay was being restrained by the authority's financial position, all units should share the burden.[71] For example, in CL1 the NHS ancillaries settled for 13 per cent before it became clear that a 14 per cent pay factor was to be introduced; the unions negotiating the nurses' and midwives' increases, some of which were the same as settled the ancillary negotiations, did not want to press for more than 14 per cent for fear of upsetting the ancillaries.[72] In a similar way, the teachers were angry when management said their final offer was only 4 per cent when other groups had settled for 7-1/2 per cent in CL2.[73]

While the trend towards more limited orbits of comparison was indisputable, it is clear that some groups retained wider orbits. This occurred for a variety of reasons. Partly this was due to some authorities, like the AEA, acting within a more liberal economic-political market context. For the others, it reflected labour market forces and bargaining power, about which more will be said in due course.

1.2.2 Public corporations

The orbits of comparison favoured by public corporation groups did not change significantly during the period. As Table 8.1 shows, there were few comparisons that were prevented from affecting pay negotiations: those were a small number of historical, index-based, or private sector comparisons disavowed for financial reasons. As a result, there was not the same degree of contribution to lower wage inflation from this source as in the public services.

Notwithstanding tnis, the comparability criterion facilitated the counter-inflationary impact of the financial pay restraint policy by largely mirroring, and thereby legitimising, the financial constraints. First, it is striking that most comparisons were made within the same broad sector of the public corporations or closely related sectors. The first to settle in an industry, usually the manual workers, commonly looked to other manual groups in the sector. Other bargaining units in the industry were heavily influenced by the manual increases. Of course, there were exceptions where more general comparisons were made, but the emphasis on subsectoral and authority relativities matched the subsectors in which financial constraints were similar.

Second, the sectoral ranking based on financial constraints was much the same as the sectoral ranking based on normative ideas of fair pay. The NCB and the NUM wanted to be 'top of the league', as they put it, due to the nature of mineworking.[74] Meantime, BGC aimed to be in the top 10 per cent.[75] The ESI and NWC workers thought they should be comparable to BGC employees.[76] Large increases were believed to be in order. These authorities also had the most flexible ability to pay, so the financial pay policy implications were reaffirmed. Again, matching the stricter financial conditions, other sectors tended to shun comparisons with the energy and utilities sector. As one negotiator remarked, 'The miners are a different kettle of fish'.[77] The communications sector focused on points of comparison that did not tend to imply increases as great as in the energy and utilities sector, although some comparators were from outside the subsector. The same applied to the transport sector groups, some of which also included local authority comparisons, which lowered the likely sectoral average increase relative to communications workers, commensurate with the lower ability to pay. Finally, the manufacturing sector showed both wide and narrow orbits of comparison, correlating financial circumstances. For example, in BSC external comparisons were totally rejected in view of the overriding corporate goal of survival.[78]

The reinforcing role of comparability originated independently of the financial constraints to a large extent, although granted, certain orbits were reduced in the name of economy. The norms regarding appropriate comparisons were of long standing in many cases. Apart from feelings of fairness, such as due to historical relationships or the so-called 'spirit of the industry' in BR,[79] they were partly influenced by relative power, rooted both in strategic and economic conditions. For example, energy and utility groups were accorded the highest place in the normative hierarchy in part due to a recognition of their superior power. Other determinants included labour market considerations, such as the need to give equal rises within authorities in order to maintain adequate incentives for foremen and supervisors.[80]

Of course, an alternative interpretation of this role of comparability might be that the financial constraints were drawn up so as to accommodate the forces of comparisons. While there may be some truth in this in a few cases of the fixing of the EFL assumptions, it seems clear that financial circumstances outside the Government's control, such as demand trends and labour-total cost ratios, also gave flexibility to high-paying industries. In addition, comparisons were overridden in a few cases. As a result, it seems unlikely that comparability was actually a significantly inflationary factor.

1.3 Cost of living

The de-escalation of wage increases was further encouraged by the relatively restricted role given the cost-of-living criterion. First, it was not emphasised in the public services. This reflected the fact that, even in more normal times, the public services groups were generally more concerned with comparability. The only groups to attach primary importance to it were university manual and clerical workers and local authority manual and building and civil engineering workers. Other groups, such as NHS nurses, professional and technical staff, optical staff and ancillaries; AEA employees; and local authority white-collar workers, used the real wage argument, but only in a subsidiary manner.[81]

Second, where the cost-of-living criterion was pressed by the union side, as in most public corporations, especially by the first group in the authority to settle, and in the public services cited above, it was not always accorded respect in negotiation outcomes. The financial arguments tended to dominate. Unless the financial constraints were sufficiently loose, real wages declined. As might be expected, bargainers, especially in the public services and manufacturing and transport, reported their arguments rebuffed.[82] Negotiators accepted this, even if they disagreed with it, and turned their attention to 'equalising the misery'.[83]

The record of settlement rates in real terms corroborates these findings. Table 8.3 indicates that, indeed, the public services (excluding the police and fire services) and manufacturing failed to keep pace with the cost of living, although the aggregate figure for transport did not reveal a decline in real pay. The energy and utilities and communications sectors generally kept up with inflation. The cost of living was apparently neglected most in the first three phases of the financial pay restraint policy.

Policy	CL1	CL2	CL3	CL4	CL1-4
Year	1979-80	1980-81	1981-82	1982-83	1979-83 Compounded
Sector					
Central Government	-3.9	-2.6	-2.4	+0.4	-8.3
Civil Service	-0.5	-2.9	-0.4	N.A.	-3.7
NHS	-6.7	-2.4	-2.6	+0.3	-11.1
Universities	N.A.	N.A.	-5.8	+0.6	N.A.
Local Authorities	-4.7	-1.7	-0.9	+2.7	-4.7
Police and Fire	+0.3	+2.8	+0.5	+3.3	+7.0
Other	-4.8	-3.1	-1.6	+1.8	-7.6
Public Corporations	+0.3	+1.4	+0.3	+1.9	+3.9
Energy and Utilities	+2.3	+1.3	-0.1	+1.0	+4.7
Communications	+2.2	-0.5	-0.6	+1.8	+3.1
Passenger Transport	+1.2	+0.7	+0.7	+4.2	+6.4
Manufacturing	-1.1	+2.6	-5.7	-2.7	-6.9
Public Sector: Total	-2.0	-0.3	-0.6	+1.8	-1.1
Annual increase in RPI: April	21.8	12.0	9.4	4.0	

Table 8.3: Percentage real settlement rates in the UK public sector 1979-83

Note: Settlement rates are deflated by the annual rate of price increase at the usual settlement date

Source: Derived from Table 5.3 and RPI data.

In view of the evidence, it is clear that the rate of pay increase was lower than if compensation for price increases had been permitted. Furthermore, where the cost of living was acknowledged, it should be said that the downward trend in the index after May 1980, induced a comparable movement in settlement rates. Table 8.3 indicates the falling rates of price inflation in April each year.

The Government attempted to accelerate this effect by introducing a Tax and Price Index (TPI) in August 1979, which took account of changes in retail prices as well as income taxes and national insurance contributions.[84] It was hoped that negotiators would look at trends in post-tax real income and realise that the Government's tax cuts implied that lower increases were necessary to regain former levels of real disposable income than were implicit in conventional real wage calculations based on the RPI. In practice, the tax cuts made little difference and negotiators almost universally failed to use the TPI in bargaining.

1.4 Recruitment and retention

Recruitment and retention needs had little significant effect as a pay increase criterion during the 1979-83 period. Primarily, this was because it was rarely brought up. Labour supply and demand had not been prominent considerations in the era prior to the cash limits pay restraint policy, and there was no reason to expect them to grow in importance during the policy.[85] Negotiators were generally preoccupied with the ability to pay and its consequences for relative and real pay. Further, some bargainers, particularly where multiemployer bargaining took place, remarked that they were uncertain of the recruitment and retention situation.[86] As a result, they were not in a position to take account of labour market factors, even if they had wished to do so.

Where recruitment and retention was an issue, the criterion was not particularly influential in the determination of the final settlement level. Probably the most devout protagonist of the criterion was the Government in civil service pay negotiations. Its view was baldly stated in the CL3 pay offer:

> . . . the Government's objective . . was to pay those wages necessary to recruit, retain and motivate the staff required in both numbers and quality to enable public business to be conducted in an efficient and cost effective manner.[87]

Yet, it offered pay increases of 3.5 per cent in a period of high unemployment. As it admitted,

> had (recruitment and retention of staff) been the only criteria, it could be argued that no increase in pay was needed at all in the circumstances of 1982.[88]

The eventual settlement, determined by arbitration, was even higher. This indicates that other factors were more important.

This case was not atypical: the use of the labour market criterion did not appear to reduce the general level of pay increases within an authority. To the extent that it had an effect, it was to affect the distribution of the increases, either between bargaining units in the authority or within a particular unit. For example, UCNS did not seem to want to use the labour market criterion to squeeze pay budgets - that was largely a function of financial constraints and the role of the FGPC in setting parameters - but it did vary the increases according to market conditions. In view of the losses of technical support staff to private industry, for example, technicians tended to receive slightly greater increases than manual or clerical workers.[89] Elsewhere, BT was conscious of the need to attract and retain engineers in a market characterised by excess demand.[90] The BBC also weighted its increases towards certain groups for which the London market was tight, such as secretaries.[91]

1.5 Productivity

Productivity arguments or deals as a means of obtaining higher settlements, (as distinct from pay increases from ongoing incentive payment systems that were not part of settlements, which were discussed in the last chapter), were not common. In part, this reflected the difficulties of measuring productivity, especially in non-manual occupations, and also the fact that greater productivity was not always appropriate in the public services if a decline in the quality of service would have resulted.

Even where productivity was a potentially viable criterion, unions and management were frequently hesitant to use it. Foremost in the minds of unions was a fear of creating additional unemployment. For instance, BAe workers would only agree to a productivity deal if there was no reduction in employment.[92] BGC non-manual workers simply refused, saying that they wanted employment stability.[93] Unions were also concerned at the implications for the organisation of work and working conditions. For example, although it eventually agreed, ASLEF was reluctant to commit itself to flexible rostering due to the ill-effects it foresaw. In particular, it did not want to see the end of the eight-hour guaranteed day. It was also worried about the effect on health and safety, personal needs breaks, and shift 'swapping' arrangements.[94] Finally, as institutions, unions were concerned for membership, income and power. For example, the ISTC was aware that local bonus schemes would weaken the central organisation and dampen enthusiasm for national campaigns such as against job cuts.[95]

Managements, too, were often opposed to productivity deals. Principled objections included the view, held by the BBC for example, that it was wrong to pay unions for the remedy of past inefficiencies.[96] Some authorities were also opposed to paying for management-inspired reorganisations and economies.[97] From a practical point of view, managements were wary of entering into productivity deals without specific commitments that would ensure self-financing or labour cost savings.[98]

The instances where productivity gains were rewarded by higher settlements were limited to the public corporations sector. The productivity criterion was operated in different ways. One variant was the added-value or profit-sharing approach. This was seen in BSC plants in the tubes division, for example, where business results schemes were negotiated on one or other basis.[99] Meanwhile, BT paid higher increases according to the annual increase in profit due to greater output.[100] A second type of formula used was based more directly on labour productivity. BSC plants in the strip products group negotiated schemes based on manhours per tonne (and production costs), for example.[101] The PO also introduced local schemes involving targets in parcel- and letter-handling per man-hour.[102] A third kind of productivity deal was simply a higher settlement for promises of greater productivity. For example, LT gained a commitment in CL1 to duties and rosters for single manning of tube trains, inter alia, in return for the 20 per cent pay deal.[103] BR unions eventually agreed to a number of productivity measures in return for a shorter working week in 1982.[104]

The effect of productivity deals on settlement increases did not appear to threaten the de-escalation of pay increases. To be sure, where against job cuts.[95]

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The effect of productivity deals on settlement increases did not appear to threaten the de-escalation of pay increases. To be sure, where productivity was rewarded, pay generally appeared to be higher than it would otherwise have been. For instance, the increases in the pay of BR and LT workers in CL1 and 2 were among the highest in the round, in spite of the energy and utility sector having a more prosperous financial outlook. Also, BSC management argued that pay increases could not be afforded other than through productivity agreements. On the other hand, the percentage of public sector workers affected was relatively small. Not only did few authorities negotiate productivity-related settlements, but also where schemes were left to local parties to determine, they did not always do so, as in the PO, with the result that the potential pay increases did not occur.[105] In addition, on occasions, payments were not large, as was the case in BSC during periods when demand was especially sluggish.[106] In BT, the productivity payments amounted to only 1 to 3 per cent a year, and management argued that the net addition to pay increases was even less because without the productivity payments, higher basic rate increases would have been negotiated.[107] BS also regained some of its outlay in the form of firm limits on overtime pay.[108]

It should be remembered, of course, that while productivity deals may not have lowered settlement rates, they were not necessarily inflationary in terms of unit labour costs. It was striking that managements strove to tie pay and productivity together by means of formulae, as in BT, the PO, and BSC, or by attempts to make pay rises conditional upon general progress or productivity, such as in BS and BR. Certainly, BSC achieved massive cuts in employment and significant restructuring. BS reduced its size, too. LT achieved single manning. BR managed to make progress on a number of issues, which may not have added up to great savings, but opened the way for future changes in working practices by demonstrating management's determination to manage.

1.6 Summary

It is clear that for most authorities the ability-to-pay criterion was the most influential under the cash limits pay restaint policy: through this argument in pay determination the financial constraints imposed by the policy had their intended effect. Negotiators desired, for normative and calculative reasons, or were forced, to respect the constraints, stretching them only at the margin. The downward path of settlements was also induced by narrower orbits of comparison in tne public services, and was facilitated in the corporations sector by orbits of comparison tending to be confined to authorities with similar financial positions. The cost of living also played a role subordinate to the ability to pay: it was largely ignored or rebuffed in the public services and manufacturing. Elsewhere, the decline in price inflation spilled over into pay claims. The recruitment and retention and productivity criteria were of limited relevance in the 1979-83 period. Labour market arguments appeared to affect the distribution, but not the average level of pay increases. Productivity payments were not always large, and financial and productivity offsets were generally made.

2. Bargaining Power

The choice and weighting of the pay determination criteria, together with the aggression with which they were pursued in bargaining was partly due to bargaining power. In the 1979-83 financial pay restraint policy era, the balance of power lay with the Government and management.

2.1 Economic bargaining power

At the end of Phase 4, economic bargaining power favoured the unions over management. Unions could press their claims due to the relatively low costs of negotiation, industrial action, and settlement outcomes. Management, on the other hand, faced high negotiation and action costs, not to mention considerable disaffection with outcomes, if it was to pursue smaller increases.

By the closing of months of CL1, the tables were turned: generally speaking, relative economic bargaining power rested with management. The main reason was unemployment. It greatly increased the cost to the union side of pursuing settlements based on preferred criteria, such as comparability and the cost of living. In a situation where the ability to pay was closely circumscribed, not only would workers be displaced by high pay increases, but also they would find it more difficult to find other employment. This was disconcerting for the normative and calculative reasons outlined earlier.

As Table 8.4 shows, in CL1 the rate of unemployment in April, a common settlement date, was only 5.8 per cent. However, during CL2-4, unemployment was close to, or in, double digits. Negotiators reported that, indeed, they noticed the effects of unemployment on power after CL1.[110] Not only were the rates of unemployment important, but also its trend, or rate of change. As the table indicates, the trend was upward throughout, but was particularly pronounced in CL2. Workers realised that future job losses would probably be set against a background of even greater unemployment. Thus it was not surprising that, for example, the ISTC believed it was futile to strive for larger settlements given budgetary constraints, rising imports and a declining market, while BAe workers were concerned lest contracts be lost to Boeing, and NBC employees feared employment cuts in the more competitive bus sector.[111] A common

Pay Round (April)	Unemployment	
	% rate	% rate of change
CL1	5.8	13.7
CL2	9.9	70.7
CL3	11.9	20.2
CL4	13.1	12.9

Table 8.4: Unemployment rates and rates of change in Great Britain April 1980-83.

Source: Department of Employment Gazette, various issues.

sentiment was that of PT(B) workers who 'felt they were lucky to have a job.'[112]

At the same time, the costs to management of insisting on low settlement rates were much less. Discontent was usually latent given the attitude of resignation towards the financial constraints, and the recognition that restraint was general. The low costs to management of pressing its case, and the high costs to unions of resistance, gave management a considerable degree of economic bargaining power.

While, in general, power rested with management, there were sectoral variations. Management's power was most pronounced in manufacturing and certain transport industries where unemployment was relatively high and union negotiators were resigned to the inflexibility of the financial situation. At the other extreme, management was weakest in the utilities and communications sectors because unemployment was relatively low; at the same time, the less stringent financial position induced unions to pursue their claims, causing management to incur high costs if it resisted. Other authorities were between these two extremes, with relative power favouring management.

The relative costs of industrial action also changed in favour of management, particularly in the earlier years of the period, making it easier to resist union claims. Union and individual resources for financing strikes were more restricted than in 1979, effectively increasing the cost of action in terms of the institutional and personal economies that were necessary. First, some unions had severely depleted their funds when taking action in Phase 4. NALGO, for example, found the social workers' strike particularly expensive, its general fund revenue account showing a deficit in 1980 of £0.4m.[113] It should be said that even after a few years, during which time resources were rebuilt somewhat, unions were far from indifferent to the cost of action. The conclusion of the civil service dispute, although based on selective action in the main, was said to be hastened by the deficiency of funds.[114] In the NHS dispute it was realised that NUPE's £16m. of funds would have disappeared in six weeks had all NHS members struck and had been paid strike pay of £12.50 per week.[115] COHSE, with £3.7m. in reserves and assets and £3 weekly strike pay would have quickly run out of finance too.[116] The TUC Health Services Committee was also cost-conscious, refraining from placing advertisements in newspapers due to the cost.[117]

Second, individual resources were limited. They had been run down in some cases during the Phase 4 strikes. Under the cash limits policy, the cuts in real income hindered the restoration of savings levels. Furthermore, supplementary benefit payments to strikers' dependents were reduced from 1980: not only were deductions made for other earned income, but also for notional amounts of strike pay, whether actually paid or not.

For management, the costs of worker action fell in certain respects. First, as will be shown shortly, the strategic power of unions in certain authorities was reduced, lowering the cost of action to the employer. Second, even where industrial action had the usual implications for output or services, the political costs were less than in Phase 4. Part of the reason appeared to be that the public was more prepared to countenance strikes caused by management resistance to inflationary claims that were out of line with other settlements. Linked with the change of mood, the Government believed that it had a mandate to reduce inflation and combat the power of trade unions, and was therefore prepared to withstand strikes. In any case, apart from in 1983, the cash limits policy was administered in years when there were no national elections at which public opposition could have political repercussions.[118]

Finally, negotiation costs also gave management economic power over unions in most cases. Outside the less-constrained public corporations, unions faced costly negotiations if they were to strive for the increases they demanded, due to the difficulty of raising the ability to pay: there would have been costs in terms of negotiators' time and effort , not to mention administrative costs associated with organising lobbies, for example. The costs to management of seeking low settlements were somewhat smaller because management's position was bolstered by the exogenous financial constraints. The exogenous character of the constraints also meant that attempts to raise offers were directed more at politicians than management, reducing negotiation costs for management.

2.2 Political bargaining power

A further reason for the dominance of the ability to pay was the distribution of power in the political market that was oriented around pay determination (as distinct from the public expenditure political market). Structurally, the market included management and unions, government departments, the Cabinet, M.P.s, the media and the public. Before the Conservatives took office, the unions were powerful. They had access to Government, meeting Ministers regularly, lobbying Parliament, and working through sponsored M.P.s. Importantly, in 1979, the Labour Government was prepared to acknowledge the views of the unions, partly due to ties with the labour movement, and partly because of its industrial might.

However, the change of government brought with it a change in the political market. While the unions had much the same access to government, the attitudes of the new administration were fundamentally different, as in the public expenditure political market. Reflecting the absence of ties with the unions and the lack of union power from other sources, and in conjunction with its macro-economic stance, the Government was uncompromising when approached with demands for more flexibility in pay determination, as noted in the context of the ability-to-pay constraints.[119] For instance, in the industrial civil service, the CSD offered to arrange a meeting for the union side with the Minister to discuss a pay offer, but warned that it would be of no use: a union negotiator remarked that it was 'a dialogue of the deaf'.[120] More generally, unions recognised that the Treasury view dominated and that no 'end run' bargaining would be successful.[121] They believed that, once set, the pay provisions were immovable: more than one negotiator compared attempting to obtain more funding to 'banging your head against a brick wall'.[122]

Some reacted by withdrawing from political channels or by limiting participation in the market to non-financial matters. Others continued to send deputations and lobby Parliament, usually with resignation to the likely outcome. One rationale was that it was necessary 'to go through the hoop' and try any means possible to increase pay, while another was that it was done to satisfy the membership.[123]

The unions most affected were those in the public services and manufacturing and transport where Government constraints bit deeply and could only be altered through political channels. For others, political bargaining power was largely irrelevant, at least in the context of pay determination.

When managements were prepared to approach the Government, they usually fared no better. As one CSD negotiator said, 'Ministers are not sympathetic to hard-luck stories.'[124] The local authority associations came to realise that the Environment Secretary really did mean that there would be no more funding for negotiators to rely on.[125]

As a result of tne changed distribution of power, tough management stances were bolstered. Instead of positions being undermined by Government-union negotiations, management was supported by the Government. Not only were financial constraints reinforced by the Government's unwillingness to bend in the face of industrial relations pressure, but also the Government was prepared to agree to stringent pay factors, such as in BSC in CL1, and back tough positions in negotiations, such as in BR over productivity in return for a shorter workweek.[126]

Union power was also usually dampened by public opinion and the media. Autonomously, and with help from the media, public opinion reacted against the unions in the Phase 4 'Winter of Discontent'. For example, general anti-union sentiments were said to have caused some NHS unions to be acquiescent in the early part of the period.[127] The public was also hostile to particular groups, such as the rail unions over productivity.[128] That said, some groups did not fare badly: the FBU and the NHS unions reported public support when, respectively, attempts were made to remove the fire link and the NHS was on strike.[129]

2.3 Strategic bargaining power

Strategically, unions were slightly less well-placed to impose their demands in the cash limits pay restaint policy due to changes in the organisational, technical and legal sources of power.

The organisational bases of union strategic power remained largely intact. Although the roll-back of the public sector reduced union membership levels, there is no evidence that the density decreased.[130] The closed shop continued to have much the same coverage, promoting organisational membership and thereby union strength. One exception was in BR, where management told the workforce that if they lost their union membership through refusing to take strike action, they would not lose their jobs.[131] However, overall, it appeared that unions were still able to call on the support of a substantial proportion of the workforce in most sectors.

During the period, the distribution of members between unions and professional associations shifted a little. In particular, the RCN grew approximately 40 per cent, while COHSE declined after 1982. In teaching the NUT declined by 15 per cent or so, while the NAS/UWT maintained a reasonably steady level of membership.[132] However, it is wise not to make too much of this. Union power was probably not significantly affected. The RCN demonstrated in the NHS dispute that it could be militant like the other unions. The NAS/UWT was as aggressive in pay bargaining as the NUT, being prepared to ask its members to suspend voluntary school duties.[133]

In point of fact, it should be noted that union organisation-based strategic power may have increased due to the inter-union coordination seen at TUC and other levels. However, for reasons outlined in the context of the organisation of the parties in the last chapter, the practical import of this should not be exaggerated, either.

The technological sources of union power were more restricted, in contrast to organisational sources. The main reason was that, in some sectors, alternative sources of supply sprang up, preventing workers from controlling output or services to the same extent, and hence easing the pressure on the authority from the public. There was also a greater risk of permanently losing business and therefore jobs in the trading sector. For example, in local authorities the growth of privatisation and the decline of direct labour organisations facilitated the circumvention of local authority worker strikes.[134] Elsewhere, the deregulation of transport made alternative means of transportation even more readily available.[135] The PO workers found their power curbed by the threat of the derogation of the postal monopoly.[136] These fears were real: steelworkers saw part of their market share disappear as a result of the strike in 1980.

In addition, certain groups discovered that their ability to disrupt the economy was less than they had professed. For example, the steelworkers were unable to stem the flow of imports of steel in their CL1 dispute,[137] and the water workers' strike in CL4 was not as catastrophic as the unions had threatened, due to automatic pumping mechanisms and the ability of picket-crossing management to substitute for striking workers.

Of course, this is not to deny that many groups were still powerful due to their place in the production process. In particular, gas and electricity workers and the miners appeared to be well-placed, with no other significant competition, although coal stocks were high. According to negotiators, this at least partly explained their relatively large increases. Electricians were also powerful: the NHS electricians were able to use their might to maintain pay parity with the electrical contracting industry in CL1.[138] Computer operators in the public sector generally gave their unions significant power, too, such as in the civil service dispute.[139]

The legal bases of union power were reformed by the Conservative Government because, as Sir Geoffrey Howe said in 1978,

every piece of industrial relations legislation passed by the

> Government in the past 4 1/2 years has served only to diminish the authority of the moderate and responsible trade unionists and strengthen the hand of the militants.140

First, the power to organise was limited. The recognition procedures were repealed by the 1980 Employment Act. No longer could unions appeal to ACAS for a ruling when management refused recognition. Moreover, coercive trade union recruitment through industrial action was no longer protected where the action was on other premises. Injunctions or damages could be given if a contract was broken. The Act also placed more limitations on the closed shop. From 1980 anyone with a deeply-held personal conviction could be excused.[141] The 1982 Employment Act prohibited action in pursuit of a closed shop, and required ballots every five years to approve the closed shop, approval being defined as an 85 per cent majority of the voters, and 80 per cent of those entitled to vote, in favour.[142]

Second, the power of unions to take industrial action was concurrently affected by legislative changes. Fewer actions remained immune. Secondary action was precluded by the 1980 Act, except where a contract was in force with the primary employer and the action was likely to prevent or disrupt the supply of goods or services between the primary and secondary employers.[143] In addition, the 1982 Act required that issues over which action was taken had to be related mainly to a trade dispute, not merely connected with them. Unions were made liable for damages to compensate for economic losses where strikes were not immune under the law.[144] Secondary picketing was also barred by the 1980 Act.[145]

While there is no question that the legal bases of union power underwent considerable change, it is unlikely that they amounted to much in practice in the context of pay determination between 1979 and 1983. Certainly, negotiators did not mention them as important. First of all, the limits on the power to organise were of little relevance because the public sector was already heavily organised. The closed shop remained largely unaffected, as argued earlier. Second, most action in pursuit of a pay claim was still protected. Only those groups which might have engaged in secondary action were constrained. Action over government policies, such as cash limits or deregulation which could impact on pay, was, however, likely to be precluded due to the requirement that the issue relate mainly to a trade dispute.

2.4 Summary

In general, bargaining power rested with management, in contrast to mid-1979. It was relatively costly for unions to pursue their claims due to the threat of unemployment, limited resources, and the prospective costs of long negotiations. Management was prepared to press its case since the costs of low settlements were not significant in terms of discontent; the economic and political costs of action were less than previously; and the costs of negotiation for management were likely to be low. Politically, the unions were relatively powerless, while management's negotiating position was reinforced. Some unions remained strategically powerful, but power was lost to management, mainly because of the growth of alternative sources of supply, but also because secondary action was curbed by legal reforms. The increase in organisational power due to inter-union coordination was relatively minor. As a result of these factors, managements' main pay criterion, the ability to pay, was recognised, and the de-escalation of settlements went ahead.

Unions were relatively powerful in a few authorities where unemployment was low; where the financial constraints did not impose large negotiation costs and removed the need for political action; and where the unions possessed organisational and technological strategic power. Primarily, this meant the utility industries and the communications sector. Consequently, there was more pressure for the implementation of union criteria, and hence for higher pay rises, in these corporations.

3. Politics of Wage Decisions

The final factor influencing bargaining strategies, in conjunction with pay criteria and bargaining power, was the politics of wage decisions within and between unions and management. The balance of attitudes within and between the parties was important because it affected the responses made to the implications of the preferred criteria and the intensity with which bargaining power was used.

3.1 Intra-union politics

Of major relevance to the outcome of negotiations was the attitude of the unions towards rectifying perceived injustices. Rarely were the unions prepared to use their power to challenge the ability-to-pay argument in order to achieve their pay objectives. This is illustrated by the relatively small number of stoppages in pursuit of improved pay offers under the cash limits policy. Table 8.5 lists the public sector stoppages defined as prominent by the DE. It can be seen that there were only eleven prominent stoppages over four years, and only the steel, civil service, NHS, and water strikes were significant in terms of working days lost. Also, only the steel, water and docks strikes entailed more than five working days lost per worker involved.

The main reason why the public sector was relatively docile, and was prepared to see normative and calculative advantages in respect for the ability to pay, was that the shortfall relative to the pay levels warranted by comparability and cost-of-living criteria was not large on the whole, as Tables 8.2 and 8.3 showed. Although links were broken, relativities within the public sector did not fall much out of line. Negotiators reported that workers would only fight over a shortfall if it was large.[146] Certainly, action was not to be expected, at least given recent historical experience. The shortfalls were much larger under the Labour Government's policy in the late 1970s before widespread action occurred. Table 8.6 illustrates this

Pay Round	Group	Dates	Workers Involved Directly	Workers Involved Indirectly	Working Days Lost
CL1	BSC: production workers	2.1.80-7.4.80	138,495	12,505	8,800,000
	BTDB: London dockers	15.1.80-22.2.80	4,195	810	41,900
	BA: Maintenance eng.	10.1.80-11.1.80	8,500	-	8,500
	LA: Scottish teachers	17.4.80-12.6.80	32,100	500	103,000
CL2	Non-ind. civil servants	24.11.80-1.12.80	50,000	-	15,000
		9.3.81-21.8.81	294,000	24,000	867,000
	NWC: Manual workers	19.2.81-12.3.81	1,410	-	7,500
	BA: Engineering maintenance and ground staff	23.1.81-23.1.81	15,000	-	15,000
	NHS: ambulancemen	10.6.81-16.7.81	13,000	-	25,000
CL3	NHS	14.4.82-15.12.82	180,000	-	781,000
	BR: conciliation grades	28.6.82-29.6.82	56,300	-	108,300
CL4	NWC: manual workers	18.10.82-18.10.82	30,000	-	30,000
		24.1.83-23.2.83	35,000	-	766,200

Table 8.5: Prominent public sector stoppages under the cash limits pay restraint strategy 1979-83

Source: Employment Gazette, DE, various issues.

by contrasting tne maximum relative and real losses in pay during each strategy since the previous peak levels of relative and real pay. The relative pay losses under cash limits pay restraint were less than half the magnitude of the losses during Phases 1 to 4 (with just one exception). In particular, manual workers saw much less loss, as did public corporation non-manual workers, while central government white-collar workers saw relatively less improvement. Public sector real pay declined by less than half of the Phase 1 to 4 fall, with only two exceptions. Public corporation workers and non-manual local authority workers fared relatively well.

Moreover, there appeared to be misperceptions of the magnitude of the losses that were being generated by current settlements. Delayed or staged payments during the life of an agreement tended to obscure the implications of the following settlement. It was repeatedly asserted, for example, that the SCPC awards, which were in most cases staged, made workers less willing to press their demands in the next set of negotiations.[147]

Interacting with the degree of shortfall were a number of other factors which encouraged worker recognition of the ability to pay and defused militancy. First, a large number of negotiators believed that Government exhortation combined with the constant media discussion of the economy's problems conditioned workers to accept lower pay increases, despite their own self-interest.[148] This was reinforced by the general mood of the rest of the workforce: it was felt that it was untimely to expect significant increases.[149]

Secondly, there was a reluctance to engage in industrial action while the memories of the 'Winter of Discontent' were still fresh.[150] Partly this was due to the effects on workers as individuals. For instance, UCATT workers in local authorities were said to have found the experience traumatic.[151] Partly also, some unions were concerned for their image which had been tarnished in Phase 4, particularly following media criticism of the conduct and effects of the strikes[152]. The memories of the UCW were even longer: the spectre of the 1971 strike continued to dampen any thoughts of national action.[153]

Thirdly, in some authorities unitary perspectives of the union-employer relationship persisted. For example, the industrial civil service workers were pro-establishment due to their defence work; consequently they were generally unwilling to strike.[154] BWB workers, meanwhile, felt close personal ties to management.[155] NHS professionals would do no more than send messages of support to strikers in the NHS dispute. The extent of this should not be exaggerated, however, since most groups had a pluralist perspective.

Fourthly, some unions did not campaign hard against management pay proposals because they were more concerned with other issues, particularly employment. For instance, there was more opposition to privatisation proposals in BGC and BT than to pay offers.[157] UCATT was also too preoccupied with internal organisational problems to concern itself too deeply with challenging the pay restraint policy.[158]

These factors tended to outweigh the influence of forces working in the opposite direction, such as an increasingly militant union leadership and growing unionateness, at least in the public sector as a whole. For example, the NUR leadership became more militant, not just due to a change of General Secretary, but also due to a shift in the balance of power on the Executive Committee.[159] NUPE's new General Secretary was more left-wing than his predecessor. The IPCS and FDA became more politically-workers in local authorities were said to have found the experience traumatic.[151] Partly also, some unions were concerned for their image which had been tarnished in Phase 4, particularly following media criticism of the conduct and effects of the strikes[152]. The memories of the UCW were even longer: the spectre of the 1971 strike continued to dampen any thoughts of national action.[153]

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> The RCN has a reputation as the most conservative, the most moderate, the most docile trade union anywhere in the public sector. Never before has it so publicly thrown down the gauntlet![162]

While these changes were sometimes locally significant, they did not lead to greater public sector militancy overall.

The strikes and militant posturing that were seen were due to deviations from the general pattern of union politics. First, some industrial action arose due to unusually large shortfalls in relative pay. The evidence in Table 8.6 that non-manual workers in central government were particularly badly hit suggests one reason why the civil service and NHS strikes occurred. Also, the low offers to steelworkers (2 per cent) and waterworkers (4 per cent), when the going rates were approximately 20 and 7 per cent respectively, held out the prospect of increased shortfalls. Other unions felt similarly. One negotiator said that the going rate was 'a test of virility'.[163]

A second cause of militancy was the defence of a deeply-held principle that had been abrogated. For example, the civil servants wanted to retain the PRU system of pay comparability. The FBU voted to strike if their pay link was not reinstated in CL2. The water workers were motivated by the principle of pay parity with the electricity and gas workers. To be sure, other groups saw pay links broken, but few had the same moral authority.

Sector	Maximum Percentage Losses			
	Relative pay		Real pay	
	Phases 1-4	CL1-4	Phases 1-4	CL1-4
All men				
Central Government	13.9	6.1	8.9	3.4
Local Authorities	16.0	3.0	11.1	1.6
Public Corporations	6.0	0.7	9.8	1.6 gain
Manual men				
Central Government	7.0	1.4	7.2	4.0
Local Authorities	7.3	0.5	12.1	7.2
Public Corporations	7.2	0.5	10.3	0.2
Non-manual men				
Central Government	13.4	9.6	9.8	4.3
Local Authorities	15.0	5.1	10.8	1.7
Public Corporations	8.1	1.6	7.9	1.5 gain

Table 8.6: Maximum percentage losses in relative and real pay of public sector groups under Phases 1 to 4 and under the cash limits pay restraint policy 1975-83

Notes:
1. Figures are based on April data which include staged catch-up increases at the date of payment.
2. Data relate to adult male average gross weekly earnings.
3. Relative pay is calculated with reference to the private sector as a whole.

Source: Derived from *New Earnings Survey*, DE, various issues, and Retail Price Index.

3.2 Inter-union politics

The balance of attitudes between unions in the same authority or on joint negotiating bodies, (given the organisational structure, including membership composition and the distribution of power), appeared to be of only marginal relevance to pay settlements. In some circumstances the counter-inflationary effort was aided by disunity which prevented a strong opposition to the ability-to-pay arguments of management. For example, in the NHS, relations between unions and professional associations were especially acrimonious. The absence of a common front allowed management to push through the agreement of its choice on the PT(A) and PT(B) Whitley Councils, while on the Nurses' and Midwives' Council, the usually less militant RCN was generally picked off first, making it difficult for the unions to do anything but agree to the same increase.[164] In local government, the poor relations between the TGWU and UCATT were exploited by the employers.[165] In public corporations, BR used the rivalry between the NUR and ASLEF to its advantage, settling with the NUR first, and then seeking to obtain the same settlement with ASLEF, as in CL3.[166] In BSC, management tended to reach agreement with the more militant ISTC after other unions.[167] NBC management looked to exploit the differences between the TGWU and the NUR, meanwhile.[168] Although inter-union politics prevented unions from using their full strength to enforce their claims, it is difficult to see this as having had a great effect on pay increases. The relatively weak bargaining power of the unions would have limited the consequences of a more united approach.

Supporting this, where inter-union politics produced a more cooperative approach, sometimes institutionalised in an umbrella organisation or a joint committee, the impact on pay settlements appeared minimal. In the context of the civil service and NHS, the greater cooperation seen during the strikes added little to offers, as the discussion of CCSU and TUC committees showed in the last chapter. The main teaching unions put their squabbling behind them and agreed on industrial action in CL3, but the increased offer appeared to be more the result of political pressure, independent of the degree of union cooperation.[169] Elsewhere in local government, NAFO supported the FBU in the demand that the pay link be restored, but it is likely that action by the FBU alone would have been sufficient to achieve the objective.[170]

In sum, it is unlikely that, in the final analysis, the politics of inter-union relationships had much effect on the outcomes of negotiations. They were more relevant to the style of the process through which settlements emerged.

3.3 Management politics

Given environmental factors and the organisation of management for collective bargaining, especially the vertical and horizontal distribution of power, the attitudes of the holders of key positions influenced settlement rates. The balance of attitudes in management was markedly less receptive to union claims than in 1979. In particular, the notion of public sector employers having to be 'good employers' received less attention. For example, as has been discussed already, the Government no longer believed that the pay of non-industrial civil servants should be related to good outside employers. Local authorities did not attempt to be in the 'first flight of good employers'. In the public corporations sector unions believed that, for instance, the NWC 'wanted to take the union on', while BA was 'increasingly hard-nosed' in negotiations.[171]

However, it would be incorrect to put the whole of the change in attitude down to management politics. While the stances were generated by the internal political process, they were not totally independent of other factors. In particular, they reflected financial constraints and and bargaining power. Therefore, some firm stands taken by management obscured an underlying preference for being a 'good employer'. A common sentiment expressed by management negotiators was that they wanted to be good employers because they had to coexist with the staff; indeed, the Burnham employers regarded the staff as their colleagues.[172] Employers in local authorities, BR and NBC would have liked to have paid more attention to the plight of the low-paid.[173] Most managements in universities, the NHS and local authorities wanted to reach fair settlements rather than restrict increases.[174] For instance, the fire employers were genuinely reluctant to attempt to abolish the pay link.[175] The NHS Administrative and Clerical Council Management Side were disturbed that the link with the civil service had to be broken, and promised to restore it when possible.[176]

All the same, part of managements' attitudes was definitely independent of environmental factors. First, personalities were important in some industries. For example, Mr. Ian McGregor was hired as Chairman of BSC to take harsh financial decisions which obviously affected the atmosphere of pay negotiations. At BA the Chairman was regarded as 'a hatchet-man' by the unions: as they put it, 'if we strike, we will be on strike forever'.[177] Secondly, some management personnel adopted tough attitudes on the grounds that it was 'the age of the employer'.[178] Sir Michael Edwardes' adherence to a firm position was admired and seen as an example to be followed.[179] Third, where the Government was concerned, political attitudes were germane. For example, the attack on civil service pay appeared related to the antagonism felt by members of the Government towards bureaucracy.[180] More generally, the Government showed a strong political will to bring settlements down, even where financial constraints would have allowed higher increases: witness the intervention facilitated by vertical channels of communication and control mechanisms identified in the last chapter. The Government's intention was aptly summarised by Sir John Hoskyns, former policy adviser to the Prime Minister:

> Every battle - British Steel, the Civil Sevice, British Rail - had to be fought and, if possible, won.[181]

In these ways, management politics helped damp down the inflationary trend in public sector settlements.

At the same time, party politics among management side members in local authorities influenced pay increases, but it was only at the margin and worked in both directions. In the first two years of the period, the Labour Party was weakly represented in the local authority associations and on negotiating bodies. It was believed that pay offers were slightly lower as a result.[182] After the 1981 elections, the AMA turned Labour, and the ACC included more Labour members. The increased role of Labour members led to marginally higher increases, it appeared.[183] For example, the CL3 offer to manual workers of 6.9 per cent by a Labour-dominated Employers' side was approximately 1 per cent more than the Conservative members had thought was realistically attainable.[184] It was commonly held by some that the AMA attempted, through negotiations, to unsettle the Conservative Government.[185]

3.4 Politics of negotiations

Settlements levels were further affected at the margin in some cases by the general disposition of the two sides towards each other and the manner in which strategic differences were resolved.

High-trust relations continued to characterise the style of most negotiations, with the result that the outcomes tended to reflect the environment of pay determination and other strategic factors: there was little attempt to deceive the other party so as to gain an additional advantage, for example. Commonly, the practice in public service negotiations was for management to either offer the maximum amount possible at the outset, or to engage in two-step bargaining with the initial offer being revised.[186] It was extremely rare for an offer to be below the pay factor. In these ways, management was honest and direct about the realities of the financial position.

However, in certain instances, particularly where the Government was involved, the degree of trust was less. Behavioural norms were broken, for instance, in the non-industrial civil service where the Government reneged on the pay agreement regarding the use of comparability and came to largely disregard comparisons in spite of the Lord President of the Council having promised that there would still be room for them.[187] In the industrial civil service, the PRU results were simply overridden in CL1. Deception was apparent in the CL4 NWC negotiations where the initial offer of only 4 per cent was clearly well below the ability to pay, despite employer assertions to the contrary; the low offer was in fact made to satisfy a DoE Minister.[188] There were also instances of the bargaining arena being ignored altogether. For instance, BSC and BA both imposed interim freezes before negotiating delayed agreements in CL2. Industrial relations were soured in each case.

The impact of low-trust bargaining on settlements varied. For example, it appeared to invigorate the non-industrial civil service and water workers to oppose the employers more militantly. The civil service strike duly resulted in a minor increase in pay and the water strike was believed to have raised pay increases from a likely 6 per cent without the initial inflammatory offer to over 10 per cent.[189] In other examples, on the other hand, it might have been more difficult to contain pay increases had there been more trust in bargaining.

Apart from the general style of negotiators, the tactics used to resolve differences between the two sides probably had a minor restraining influence on settlements in a few cases. First, BSC and BR surveyed their workforces and undermined the credibility of the union negotiators' position. For example, BSC polled its employees in CL2 over a delayed seven per cent offer linked to achievement of the Corporate Plan. A 65 per cent response rate showed a 78 per cent majority in favour, discrediting the ISTC's opposition, (based in part on a narrower sample survey which showed a small majority against the offer). The unions were thereby induced to reach a 7 per cent settlement and not hold out for more.[190] BR ballotted a sample of its workers about their attitudes towards a strike in CL3. A majority were opposed: 66 per cent of NUR members and 53 per cent of ASLEF members. BR was therefore confident in its stance in negotiations, and, although the NUR struck, it quickly crumbled.[191]

Second, BR adopted the British Leyland tactic of sending letters to workers' homes from the Chairman. The letters sent in CL3 asked workers to defy their unions and not strike, stressing the threat to their own jobs if union instructions were followed. Notably, emphasis was laid on "family" and "job".[192]

Third, a growing trend at the end of the period under study was for managements to make a final offer only on condition that is was accepted, or recommended for acceptance, by union negotiators. While the membership might still have failed to ratify the deal, it made acceptance more likely and higher settlements less probable. For example, in CL3 the electricity manual workers reached agreement only after a strike vote and an improved offer, so in CL4 the employers made their offer of 5.3 per cent contingent on acceptance by the negotiators. Similarly, in CL4, the non-industrial civil service was allowed an increase in the offer from 3.5 per cent to 4.86 per cent only on condition that the General Secretaries undertook to recommend acceptance to their respective executives. Against the background of a NALGO delegate conference mandating plans for industrial action, local authority white-collar workers were given an improvement in the offer from 4.25 per cent to 4.9 per cent, again on condition of recommendation for acceptance.[193]

4. Summary

While the economic-political and institutional environments constrained pay negotiations, their precise effect was mediated by the strategies of negotiators. As it turned out, for a range of coercive, normative, and calculative reasons, the pay criterion most influential in pay determination was the ability to pay. Thus the intention of the financial pay restraint policy, in conjunction with other financial constraints, was relatively unthwarted. The more restrictive notions of comparability that were used also facilitated the de-escalation of settlements, as did the reduced emphasis placed on real wage objectives. Bargaining power reinforced the implications of the policy. Unions lost economic, political and strategic power relative to employers, fortunately especially where the financial managements to make a final offer only on condition that is was accepted, or recommended for acceptance, by union negotiators. While the membership might still have failed to ratify the deal, it made acceptance more likely and higher settlements less probable. For example, in CL3 the electricity manual workers reached agreement only after a strike vote and an improved offer, so in CL4 the employers made their offer of 5.3 per cent contingent on acceptance by the negotiators. Similarly, in CL4, the non-industrial civil service was allowed an increase in the offer from 3.5 per cent to 4.86 per cent only on condition that the General Secretaries undertook to recommend acceptance to their respective executives. Against the background of a NALGO delegate conference mandating plans for industrial action, local authority white-collar workers were given an improvement in the offer from 4.25 per cent to 4.9 per cent, again on condition of recommendation for acceptance.[193]

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In sum, the qualitative evidence presented in Chapters 6 to 8 indicates that the de-escalation in public sector pay increases was largely due to the financial pay restraint policy, but that its effect was highly dependent on other, situational factors of an economic-political, institutional, and strategic nature. Before considering the theoretical and practical implications in Chapter 10, the next chapter contains a parallel, econometric, analysis of the causes of the diminution of pay inflation across the public sector.

Notes

1. SCPS, Special Pay Conference: January 1981 - London, Conference Paper A, SCPS, 1981, para, 2.6.
2. IDS, Incomes Data Report, No. 384, IDS, September, 1982.
3. Interview with GMWU national officer; and NJC negotiation records.
4. Treasury and Civil Service Committee, The Financing of Nationalised Industries, Session 1980-81, Eighth Report, HC 348, 27 July, 1981, paras. 5.2-5.3.
5. Interview with NCB official.
6. For example, interviews with officers of the EMA, NUPE, FBU, NALGO, UCATT, and NATFHE.
7. Interviews with GMWU official and NALGO official.
8. Interview with BALPA official.
9. Interview with SCPS, NUT, POEU, and NALGO officials.
10. Interview with LTE manager, for example.
11. Interviews with SCPS and NALGO officials.
12. Interview with ASTMS national officer.
13. Interview with NWC officer.
14. Interview with DHSS official.
15. Interviews with officers of NUPE, ASTMS, NUT, ASLEF, and NALGO.
16. For example, interview with NUPE national officer.
17. Interviews with DHSS officials.
18. Interviews with CSD and DHSS officials.
19. Interview with NUPE national officer.
20. Interviews with BBC and MoD officials.
21. Interview with DHSS official.
22. Interview with EETPU and NALGO officers.

23. Interviews with NUPE and COHSE national officers.

24. Interviews with NALGO and NUPE officers.

25. Interview with Sheffield MBC personnel officer.

26. Interviews with LACSAB official and NALGO and CSEU officers.

27. Interviews with LTE officials.

28. Interview with TGWU national officer.

29. Interviews with LACSAB official, and NUT officer.

30. Interview with NWC official.

31. For example, interviews with MoD, LACSAB, and ADC officials.

32. Interview with BALPA officer.

33. Interviews with COHSE and NUPE national officers.

34. Interviews with NUT officer and BBC official.

35. For instance, interviews with UCATT and SCPS officers.

36. Interview with COHSE national officer.

37. Interviews with officers of ASTMS, COHSE, NUPE, NUT, and NALGO, and DHSS officials.

38. Interviews with DHSS officials.

39. Interviews with NALGO officers.

40. Interview with NALGO officer.

41. Interviews with UCW and TSSA officers.

42. Interviews with DHSS official and COHSE and NUPE officers.

43. Interviews with DHSS official and NUT officer.

44. Interviews with DHSS, MoD, AEA and BBC officials.

45. Interview with EETPU national officer.

46. Interviews with DHSS and ADC officials.

47. SCPS, op. cit., Annexe III.

48. For example, interviews with DHSS officials.

49. Interviews with CSD and ADC officials.

50. Interviews with DHSS, CSD, UCNS, ASLEF, and BAe officials and NALGO, CSEU, NUPE, FBU, EMA, NUT, UCATT, and BALPA officers.

51. Interview with GMWU national officer.

52. Interviews with UCNS member, AEA and DHSS officials, and POEU officer.

53. For example, interviews with ISTC, NUPE, COHSE, EETPU, NALGO, GMWU, and UCW officers.

54. Interviews with DHSS, BGC, BRB, AEA, BAe, and university officers.

55. Interviews with CSD, DHSS and BAe officers and NALGO, UCW, COHSE, and GMWU officials.

56. Interview with BAe and DHSS officials, for example.

57. Interview with DHSS official.

58. Interview with CSD official.

59. Interviews with IPCS, COHSE and NALGO officers and DHSS official.

60. Interviews with COHSE and GMWU national officers.

61. Interviews with DHSS and BBC officials.

62. Interview with CSD official.

63. Interviews with DHSS and ACC officials.

64. Interviews with SCPS, GMWU, and BALPA officers.

65. Interviews with ISTC and EMA officers and NWC officer.

66. A. Ross, 'The External Wage Structure', in G.W. Taylor and F.C. Pierson (eds.), New Concepts in Wage Determination, McGraw-Hill, 1957, pp. 188-205.

67. NALGO, Paper for Health Group Meeting, August, 1980, pp. 1-2.

68. Interviews with DHSS officials.

69. Interview with CSD official.

70. Interviews with ASTMS and NALGO officials, for example.

71. Interview with DHSS official.

72. Interview with DHSS official.

73. Interview with LACSAB official.

74. Interviews with NCB official and NUM officer.

75. Interviews with GMWU and NALGO officers.

76. Interviews with NALGO and GMWU officers.

77. Interview with BAe official.

78. Interview with BSC official.

79. Interview with BRB official.

80. Interview with NALGO national officer.

81. Interviews with relevant negotiators.

82. Interviews with NALGO, BALPA, ABS, ISTC and TGWU officers and LTE, BRB, and PO officials.

83. For example, interview with NALGO and NUPE officials.

84. Economic Progress Report, No. 113, Sept., 1979, and No. 117, January, 1980.

85. See A.W.J. Thomson and P.B. Beaumont, Public Sector Bargaining: A Study of Relative Gain, Saxon House, 1978, pp. 62-64, for a summary.

86. Interviews with DHSS officials.

87. IDS, Incomes Data Report, No. 372, IDS, March, 1982, p. 21.

88. P. Bassett, 'Civil Servants' Claim 'Not Justified'', Financial Times, 20 April, 1982.

89. Interviews with UCNS and university officials.

90. Interview with BT official.

91. Interview with BBC official.

92. Interview with BAe official.

93. Interview with NALGO officer.

94. IDS, Incomes Data Report, No. 374, IDS, April, 1982, p. 21.

95. IDS, Incomes Data Report, No. 354, IDS, June, 1981, p. 28.

96. Interview with BBC officials.

97. Interview with BAe official, for example.

98. Interviews with BALPA, TGWU, and GMWU officials.

99. IDS, Incomes Data Report, No. 375, IDS, April, 1982, p. 2.

100. IDS, Incomes Data Report, No. 355, IDS, June, 1981, p. 4.

101. IDS, Incomes Data Report, No. 375, op. cit.

102. IRRR, No. 236, Nov., 1980, p. 6.

103. IDS, Incomes Data Report, No. 335, IDS, August, 1980, p. 7.

104. For example, IRRR, No. 267, March, 1982, p. 13.

105. Interview with PO official.

106. IDS, Incomes Data Report, No. 396, March, 1983.

107. Interview with BT official.

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110. Interviews with LTE, ADC, LACSAB, UCNS, BBC and DHSS officials and ABS, NALGO, NUM, UCW and UCATT officers.

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118. Interview with NALGO officer.

119. For instance, interviews with SCPS, NALGO, COHSE and NUPE officers.

120. Interviews with GMWU national officer.

121. Interviews with DHSS official and NALGO and SCPS officers.

122. Interviews with DHSS official and GMWU and NUPE national officers.

123. Interviews with COHSE, NALGO and SCPS officers.

124. Interview with CSD official.

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131. Bassett, op. cit., Financial Times, 3 July, 1982.

132. Derived from Beaumont and Leopold, op. cit., p. 21.

133. I. Kessler and D. Winchester, 'Pay Negotiations in Local Government - The 1981-82 Wage Round', Local Government Studies, Nov./Dec., 1982, p. 28.

134. Interviews with ADC official and UCATT national officer.

135. Interviews with TGWU national officer.

136. Interview with UCW officer.

137. Interview with BSC official.

138. Interview with DHSS official.

139. Interview with SCPS officer, and Christopher, op. cit.

140. HC Deb., Vol. 12, Col.411, 15 November, 1981.

141. Employment Act 1980, ss. 19, 18 and 7.

142. Employment Act 1982, ss. 14 and 3.

143. Employment Act 1980, s. 17.

144. Employment Act 1982, s. 15.

145. Employment Act 1980, s. 16.

146. Interviews with BBC and PO officials and TSSA, FBU, NATFHE, GMWU and BALPA officials.

147. Interviews with DHSS and LACSAB officials and COHSE, NUT, NATFHE and ABS officers.

148. Interviews with local authority and DHSS officials and NALGO, NATFHE, ABS, EMA and NUM officers.

149. Interviews with BSC official and EETPU national officer.

150. Interviews with DHSS official and COHSE and UCATT national officers.

151. Interviews with UCATT national officers.

152. Interview with BT official.

153. Interview with UCW officer.

154. Interview with GMWU national officer.

155. Interview with NALGO officer.

156. TUC, op. cit., p. 66.

157. Interviews with NALGO national officer and BT official.

158. Interview with UCATT national officer.

159. Interviews with NUR and ASLEF officers.

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161. Interview with DHSS official.

162. B. Groom, 'Danger of nurses losing their patience', Financial Times, 16 June, 1982.

163. Interview with TGWU national officer.

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165. Interview with UCATT national officer.

166. Ferner, op. cit., p. 58; Bassett, op. cit., Financial Times, 3 July, 1982.

167. Interview with BSC official.

e68. Interview with NALGO official.

169. Kessler and Winchester, op. cit.

170. Interview with FBU officer.

171. Interviews with GMWU and BALPA officers.

172. Interviews with BA, LTE, BR and DHSS officials and TSSA, TGWU, NATFHE and UCW officers.

173. Interviews with BR official and NALGO officer.

174. Interviews with UCNS member, DHSS and LACSAB officials.

175. Interviews with FBU officer and LACSAB official.

176. Interview with DHSS official.

177. Interview with BALPA officer and TGWU official.

178. Interviews with BALPA officer and BAe official.

179. Interview with BAe official.

180. Painter, op. cit., pp. 34-35.

181. P. Bassett, 'The pendulum swings towards the employers', Financial

Times.

182. Interviews with ACC official and NUT officer.

183. Interviews with LASCAB officials.

184. Kessler and Winchester, op. cit., p. 26.

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186. Interviews with UCNS member, DHSS and BBC officials, and ASTMS officer.

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188. 'How Tom King stirred up murky waters', Guardian, 24 February, 1983.

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190. Interview with BSC official.

191. Bassett, op. cit., 3 July, 1982.

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Chapter 9

The Causes Of The De-Escalation Of Public Sector Pay Settlements: An Econometric Analysis

The econometric analysis of the causes of tne de-escalation in pay increases in the public sector under the cash limits pay restraint policy has two purposes. First, it is intended to independently cross-check the results of the predominantly qualitative analysis presented in the last three chapters. Second, it seeks to ascertain the statistical significance of the forces at work in a more rigorous manner than the qualitative investigation, which necessarily involved more impressionistic assessments of significance.

The first section specifies the model and describes the data used. The results appear in the second section. The chapter concludes with a comparison of the econometric results with those of the qualitative analysis, to judge the validity of the explanations put forward in this thesis.

1. Model Specification and Data

The objective of the analysis is to explain changes in, and differences in, settlement rates under the cash limits pay restraint policy, reflecting the fact that the primary focus of the policy was settlement rates, the element in total increases most likely to add to costs without accompanying changes in output. The theoretical basis for the model was as in the theoretical framework of Chapter 2. Variables were included that varied over both time and space in order to explain both the diminution of increases and differences in rises between authorities. As a result, the wage equations were more developed and better specified than in any previous studies of pay increases. For example, in one relatively recent study, wage increases were simply made a function of the rate of unemployment and incomes policy dummies.[1] Admittedly, this was a time-series study which made it reasonable to drop structural and procedural variables which did not vary tremendously over time. However, a more sophisticated specification of financial variables and compensation criteria would have been advisable to explain the magnitude of increases adequately.

The data were painstakingly collected from published sources as well as from public sector authorities themselves. In the analysis, attention was confined to the first three years of the policy because the official data for one potentially important variable, industry unemployment, were discontinued after May 1982. There were 91 public service observations and 96 observations for the public corporations. The data were pooled within each of the two sectors in order, first, to capture both the changes over time and the differences between authorities, and, second, to create data sets large enough to enable the full set of hypotheses to be tested satisfactorily. A division was maintained between the services and corporations in view of likely differences in the explanation of pay increases.

The specification and the data are explained in more detail in the following subsections.

1.1 The dependent variable

In order to pick up the impact of settlements, the dependent variable was defined as the hourly wage increase for normal hours. It thus included hours reductions, but excluded changes in supplementary elements of pay, such as in overtime working and productivity. Although supplements changed in value due to changes in rates of payment, these were generally directly related to basic rate changes; hence the hourly pay measure was a good proxy for settlement rates over all pay elements. The variable was put in log terms (so that a five per cent increase became the log of 1.05) to cope with potential non-linearities in the model caused by large variations in the dependent variable. The data were obtained from Incomes Data Reports and bargaining units themselves.

1.2 The independent variables

Following the theoretical framework, the independent variables fell into three categories: financial, institutional and strategic. They are summarised in Table 9.1.

The financial variables for the public services were the pay factor, a dummy representing the ability of local authorities to raise rate finance, and the ratio of labour to total costs. Financial growth figures were not used because, as published, they applied to financial years rather than bargaining rounds. In this way, the roles of government financial constraints, supplementary finance, and virement between expenditure subheads were assessed. The pay factors were known from Government policy announcements. The labour-total cost ratios were calculated for current expenditure as a whole where virement was easy, but within cash blocks where current expenditure was rigidly divided up by cash limits. The data were drawn from government expenditure plans in central government, local authority financial surveys, and reports from other bodies. It was expected that pay settlements varied positively with the pay factor and access to rate finance, but negatively with the labour cost-total cost ratio, other things being equal.

For the public corporations, government constraints were proxied by two measures. One, representing EFLs, was predicated on the reasoning that EFLs were designed to affect pay through indirectly stretching internal resources, given non-pay expenditures. All other things being equal, the more internal investment finance was necessary, the less there was available for pay. Hence one proxy adopted for the constraints imposed by EFLs was the amount of internal investment finance that was supposed to be found, normalised by total operating costs to counteract the effects of corporation size. Some figures were negative, such as for British Rail, because of unprofitable operations. The second variable attempted to capture some of the political pressures on authorities. The square of the first variable was used to allow for the possibility that authorities were increasingly scrutinised when they used progressively more external finance to pay for current expenditure, (that is, when internal investment finance was negative), due to greater Government concern with value-for-money and economy; and when their investment plans called for progressively more internal finance from higher prices, (that is, when internal investment finance requirements were large relative to costs). A positive sign was therefore expected. The politically-determined constraints themselves defied individual and precise quantification. The data for the two variables used were from Government expenditure plans and annual reports of corporations.

Constraints on internally-generated finance were proxied by market shares; market trend data were incomplete, and hence were not used. It was expected that greater market shares facilitated higher pay increases. Some market share data came from a 1976 National Economic Development Office report;[2] others were estimated from information in Government expenditure documents and annual reports of corporations. It should be said that where independent estimates were made, the definition and size of the total product market were sometimes open to question, especially in cases of

Independent variable	Proxy	Expected sign
Financial constraints		
1) Public services		
Overall budget	Pay factor	+
	Local authority rates dummy	+
Division of budget	Labour costs as % of total costs	-
2) Public corporations		
Effect of EFLs	Internal investment finance/ operating costs	-
Political and administrative pressures	$(\text{Internal investment finance/ operating costs})^2$	+
Internal finance	Market share	+
Division of budget	Labour costs as % of total costs	-
Institutional environment		
SCPC	Dummy variable	+
Pay link	Dummy variable	+
Review Body	Dummy variable	+
Arbitration or inquiry	Dummy variable	+
Longer, shorter or staged agreement	Dummy variable	+
Negotiation strategies		
Pay determination criteria:		
Ability to pay:		
general	Above financial and staged agreement proxies	various

pay-employment trade-offs	Change in industry or occupation unemployment	+
Comparability	Public sector comparators' settlement rates in round	+
	Private sector median settlement rate in round	+
	% change in Average Earnings Index over previous year	+
Cost of living	% change in Retail Price Index over previous year	+
Recruitment & retention	% National unemployment rate	-
	% Industry or occupation unemployment rate	-
	% change in industry or occupation employment	+
Economic bargaining power	Above recruitment and retention and market share proxies	various
	% change of national unemployment	-
	% change of industry or occupation unemployment	-
Strategic bargaining power	Market share	+
Politics:		
Willingness to use power		
	Value of increases since previous settlement date	-

Table 9.1: Independent variables, the proxies used in the econometric equations, and the expected signs

international competition. Also, changes from year to year were unknown. Nevertheless, the figures used were approximately correct, and served to differentiate between authorities, if not pay rounds.

The possibilities of substitution between expenditure categories were represented by the ratio of labour to total costs in each authority. It was calculated including capital costs since wider budgetary virement was technically possible under the EFL policy and accounting conventions than in the public services. Corporation accounts provided the necessary information. Once more, as in the public services, the sign on the coefficient was expected to be negative.

The institutional context was operationalised as much as possible, but organisational and bargaining structure factors had to be omitted due to the difficulties of quantification. Dummy variables might have captured bargaining levels but were left out because, even where bargaining was decentralised, there was still central control. Unit fragmentation could have been measured by the number of units in an authority, but that did not seem appropriate because the potential for leapfrogging was not simply a function of unit numbers. However, most pay determination procedures could be included in the wage equations. Dummy variables were specified for the occasions when formal comparability criteria were applied, including the SCPC settlements and awards based on pay links. Other third-party awards by Review Bodies, arbitrations, and inquiries were dealt with similarly. Also, where pay intervals deviated from the 12-month norm, dummies were employed. In each case, it was expected that, if anything, there would be a positive effect on settlement rates.

The strategic variables were inserted in the equation to ascertain the importance of negotiation criteria, bargaining power, and union politics in the fixing of pay increases.

Of the pay criteria, the ability to pay was assumed to be captured in part by the financial constraint variables. They were complemented by two other variables. One was a dummy variable representing instances where agreements were staged to increase settlement rates out of a given budget. This variable was amalgamated with the pay interval dummy since some of the shorter or longer agreements also had the objective of increasing the ability to pay: they were not always simply negotiated for the sake of it, or to change settlement dates. The other additional variable was a proxy for employment-pay trade-offs: the change in the ratio of unemployment in the relevant industry or occupation, as revealed by Government figures or Joint Manpower Watch data. For both variables, positive coefficients were expected.

Three comparability measures were included to assess the role of various orbits of comparisons at the due settlement dates. The narrowest definition of comparability was the going rate among public sector comparators who had already settled in the round. The field of comparators was the group of customary reference points in pay negotiations. The first to settle were assumed to look to the private sector going rate. The wider orbits of comparisons that were tested were the private sector going rate itself, summarised by the median settlement in the pay round at that time; and the change in the average earnings index over the previous twelve months. The data were obtained from Incomes Data reports, public sector authorities and Government publications. Public sector settlements were expected to be positively related to pay increases gained by the points of comparison.

Other pay criteria were specified too. Real income objectives were assumed to be to keep pace with the Retail Price Index between settlements. A positive relationship was expected. Recruitment and retention objectives were hypothesized to put upward pressure on settlements when the rate of unemployment in the economy and in the occupation or industry was low at the time of settlement; and when the employment level was increasing, as indicated by the change over the previous year. Published Government and Joint Manpower Watch data were again used. Productivity arguments could not be included due to the lack of data.

Economic bargaining power was encapsulated, first, by the change in employment, included already as a pay determination criterion. It was assumed that a declining authority would yield less power for the union, because the employer could afford a stoppage to a greater extent. Second, the national and industrial rates of unemployment, and their rates of change, were included on the assumption that high and rising unemployment would also increase management resistance, and because the workers may have been less prepared to take action in pursuit of their claims. Hence a negative relationship with settlement rates was expected. The rate of change of industry unemployment, it is true, picked up any employment-pay trade-off as well, so its sign showed the net effect of the two contradictory influences. Again, official data were used.

Strategic power was indicated by the market share variable. A larger market share was assumed to imply fewer alternative sources of supply and consequently smaller unemployment effects, upon given increases in pay. One aspect of union politics was included. The willingness of the workforce to use its power (of any kind) was represented by a variable which measured the magnitude of pay increases since the previous settlement. It was believed that rises would be lower when interim increases were paid.

Omitted variables, such as public corporation market trends, management and union organisation, bargaining structure, productivity changes, and political bargaining power, were implicit in the year dummies inserted in the equation. Unfortunately, there were insufficient degrees of freedom to include authority dummies to capture cross-section effects of these variables.

2. Results

2.1 Public services

First of all, the full equation, with every variable, was computed. It appears as Equation 1 in Table 9.2. The significance of certain variables, in conjunction with what is known about their trends between 1979 and 1982, indicates the reasons for the decline in pay settlements and for their differentiation across the public services sector.

The financial pay restraint policy appeared to impose significant constraints on pay bargaining. Local authorities' ability to raise rate revenue did not appear to significantly offset this. High ratios of labour to total costs restrained pay settlements, but not to a significant extent.

Institutions in the pay determination process worked against these constraints, significantly adding to settlements where pay links, the SCPC and Review Bodies were to be found. The same effect resulted from changes in the length of agreements. Arbitrations and inquiries were not significant inflationary forces, however, in fact apparently having a slight depressing effect on increases. In spite of these results, it should be remembered that the abolition of the SCPC reduced the contribution of the institutional context to public sector pay increases.

Dependent variable: log (1+(% increase/100))

Independent variables:	Equation 1	Equation 2
Constant	- .352*	-.161
	(2.078)	(1.140)
Pay factor	.017*	.016
	(1.677)	(1.587)
L.A. rates	.007	.004
	(1.111)	(.660)
Labour costs/total costs	-.043	-.034
	(1.325)	(1.127)
Pay link	.025*	.025
	(2.959)	(2.853)
SCPC	.022*	.028*
	(2.373)	(3.148)
Review Body	.021*	.019*
	(2.303)	(2.045)
Arbitration/inquiry	-.004	-.003
	(.492)	(.389)
Shorter/longer/staged agreements	.035*	.032*
	(5.223)	(4.894)
Change in ind./occ. unemployment rate	.001	.001
	(1.552)	(1.541)
Public sector comparability	.003*	.004*
	(3.838)	(4.406)
Private sector going rate	.011*	
	(1.751)	

Annual change in Av. Earnings	-.0002	-.001
	(.137)	(.571)
Annual change in RPI	.001	.001
	(.393)	(.353)
National unemployment rate	.007	
	(1.079)	
Ind./occ. unemp. rate	-.0003	-.0001
	(.227)	(.094)
Change in employment of industry	.0004	.0003
	(.443)	(.330)
Change in nat. unemp. rate	-.0003	-.0004
	(.795)	(1.345)
Interim rises	-.001*	-.001
	(1.874)	(1.573)
Pay round 1980/81	.141*	.105
	(1.715)	(1.325)
Pay round 1981-82	.175	.133
	(1.610)	(1.349)
R^2	.86	.85
$\bar{R}^2$	.82	.81
N	91	91

Table 9.2: Public services wage equations 1979-82

Note: critical t-value (1-tailed test, 5% level) = 1.67;

* denotes significant

Negotiators' ability-to-pay arguments did not purely reflect the overall financial constraints. They were circumvented to some extent by staging. Where agreements to stage settlements were negotiated, there were strongly significantly higher increases (independent of the institutional setting). However, given the diminution of staging after CL1, the overall addition to wage increases consequently fell as time passed. In addition, the fact that the coefficient on the change in industry or occupation unemployment was positive and close to significance indicates that there was some evidence of a pay-employment trade-off, whereby increases above the pay factor were negotiated. The trends in the variable indicate that this occurred mainly in CL2 and CL3, reducing pay restraint.

Comparisons, meantime, appeared to favour pay de-escalation. The most significant comparisons were limited to the public sector going rate in relevant authorities. By definition, there was no attempt to catch up lost ground from previous rounds, and the comparators were rarely from a more lucrative financial environment. Private sector comparisons also turned out to be significant, although much less so. Once more, the concern was merely the going rate. The widest orbit of comparison, the authorities comprising the average earnings index, was not a significant factor. These findings also underline the fact that successful attempts were not made to recover lost ground since previous settlements. Not only were comparisons limited, but also the reference groups experienced successively lower pay increases year by year, reinforcing the de-escalation in public sector pay increases.

Other criteria did not appear significant. Real income losses between settlements had no significant bearing on settlements. Recruitment and retention, likewise, were not relevant, the unemployment rates at national and industry level, together with employment growth, being insignificant.

Economic bargaining power was not a significant factor in pay determination either, in that all the unemployment variables were insignificant and the changes in industry unemployment in fact indicated a positive relationship, that is, a pay-employment trade-off. Power may not have been relevant due to the absence of any willingness to use it: the results show that pay rises between settlements significantly reduced the rate of pay increase, other things being equal.

Finally, the CL2 and CL3 year dummies were significant or close to significance, and positive, indicating that the combined effect of all omitted variables was to raise pay settlements. Conceivably, this could reflect the other politics of wage determination, political power, bargaining structure, or management and union organisation: it is not possible to tell.

It should be said that in Equation 1 some of the regression coefficients were unreliable due to multicollinearity. The private sector going rate was highly correlated with the pay factor, the price index, and the aggregate unemployment rate, while the latter was highly correlated with the pay factor and the private sector going rate. This made the interpretation of the coefficients difficult: a coefficient could not be assumed to show the effect of a change in the variable on pay rises because other things did not remain the same. Since there were no more available observations to draw on, the solution had to be to drop the private sector going rate and the aggregate unemployment rate, even at the cost of misspecifying the equation. In fact, as Equation 2 shows, little happened to the thrust of the results: the pay factor and interim rises became insignificant, but only to a marginal extent, while the CL2 year dummy became slightly more insignificant.

2.2 Public corporations

The full equation, Equation 1 in Table 9.3, was computed first. Significant financial constraints appeared to stem from the degree of monopoly power in the product market. Lower pay settlements were seen where market shares of authorities were smaller, and presumably internal finance was more limited. Since intertemporal changes in market shares were not known due to a lack of data, it is not possible to say with certainty whether the growth of product market competition spurred on the de-escalation of pay rises over time. However, the cross-section results suggest it was likely. Otherwise, there was little evidence of the cash limits pay restraint strategy inducing lower increases, perhaps partly due to the problems of operationalising relevant factors. Both the proxies for EFLs and political and administrative pressure were insignificant. In addition, the scope of substitution between pay and other expenditure was not significant.

The only part of the institutional setting of pay determination that was significant was the length of the intervals between settlements: when shorter or longer than twelve months, pay settlements were higher. Since this became less common as time went on, the implication was that pay increases were significantly lower as a result. Throughout the period, the corporation sector saw less pay inflation from other pay determination procedures than did the service sector because the SCPC, pay links, and Review Bodies were not relevant to corporation settlements (apart from nationalised industry heads' salaries for a short period), and arbitrations and inquiries did not have a significant effect on pay outcomes.

Dependent variable: log (1+(% increase/100))

Independent variables:	Equation 1	Equation 2
Constant	.083	.046*
	(.439)	(1.809)
Internal finance/Operating costs	-.0002	-.0001
	(.625)	(.545)
$(\text{Internal finance/Operating costs})^2$	.000001	.0000004
	(.810)	(.735)
Market share	.018*	.018*
	(2.685)	(3.035)
Labour costs/total costs	.011	.005
	(.694)	(.446)
Shorter/longer/staged agreements	.010*	.010*
	(1.945)	(2.534)
Arbitration/inquiries	-.004	.006
	(.572)	(1.103)
Change in ind./occ. unemp. rate	-.0002*	-.0002*
	(1.678)	(3.560)
Public sector comparability	.002*	.002*
	(2.093)	(2.312)
Private sector going rate	-.004	
	(.299)	
Annual change in Av. Earnings Index	.001	
	(.344)	
Annual change in RPI	.004*	.004*
	(1.875)	(3.504)

National unemployment rate	.001	
	(.075)	
Ind./occ. unemp. rate	-.001	
	(.729)	
Change in employment of industry	-.0003	
	(.326)	
Change in nat. unemp. rate	-.0003	
	(.727)	
Interim rises	-.001*	-.001*
	(1.677)	(1.984)
Pay round 1980/81	-.032	-.027*
	(.441)	2.313)
Pay round 1981-82	-.060	-.038*
	(.604)	(2.490)
R^2	.91	.91
R^2	.89	.90
N	96	96

Table 9.3: Public corporation wage equations 1979-82

Note: critical t-value (1-tailed test, 5% level) = 1.67

Negotiators recognised the ability to pay to some degree, but it was not as influential as in the public services. As noted above, internal financial constraints were a significant influence. Staged agreements effectively increased the ability to pay to a significant degree until their demise accentuated the restraint in pay settlements. There was no apparent employment-pay trade-off, however, the sign on the industrial unemployment rate indicating the dominance of normal labour market pressures.

Comparability, too, contributed to pay control. Short-range comparisons of pay increases, made between groups in similar financial situations in the public corporation sector, were the only significant type. This reinforced the decline in settlements seen elsewhere. Wider, potentially more inflationary, comparisons with private sector firms in different markets and with average earnings index movements over the previous year were not made to a significant extent.

Recruitment and retention were insignificant considerations again, neither the unemployment rates nor the industrial employment growth rates being significant in the wage equation, the two least significant variables also having incorrect signs. However, in contrast to the public services, the cost of living played a significant role. As it fell, so did settlement rates.

The results also show that in this sector economic bargaining power was significant. Although unemployment rates and changes in the rate of national unemployment were insignificant, the change in unemployment at a disaggregated level was significantly negative, indicating that rising industrial unemployment dampened pay rises. Judging from the trends in the variable, this was most pronounced in CL2 and CL3. The significance of the market share variable also underlines the importance of strategic bargaining power. Furthermore, since interim rises were significant once more, it seems likely that the willingness of workers to press claims vigorously was reduced as interim rises became less common.

As in the earlier analysis, problems of multicollinearity may have been present. The private sector going rate was highly correlated with public sector comparability, the price index, and the change in the average earnings index, while the latter was highly related to the RPI. Hence the private sector going rate and the earnings index, two very poor explanatory factors, were dropped in Equation 2, along with the insignificant (and in some cases incorrectly-signed) labour market variables. The basic picture of public corporation pay determination under the cash limits pay restraint policy was unchanged, although real income arguments became appreciably more significant, and the year dummies became significantly negative, indicating that changes in the omitted variables helped bring pay settlements down.

Finally, it should be said that the results presented for both the public services and public corporations stood up to various respecifications of the wage equations using different combinations of variables consistent with the theoretical framework, and different proxies for the variables.

3. A Comparison of the Qualitative and Econometric Results

Reassuringly, there is a large measure of agreement between the results presented in the last section and those based on written source material and interviews. Broadly speaking, the two separate analyses concur regarding the qualitative effects of the financial, institutional and strategic factors (where measurable). They only differ in their assessments of significance.

The financial environment was found to influence pay determination in both investigations, but the qualitative evidence found that it played a more significant part than indicated by statistical criteria. While both agreed the public services pay factor was influential, the econometric exercise found that local authority rates were faintly insignificant and did not find the public corporation EFL or political and administrative pressures significant. This may have been due, however, to the lack of appropriate proxies for these variables; hence, the role of these variables should not be discounted. The ratio of labour to total costs was not statistically significant in either sector, but perhaps while not of independent importance, it may have facilitated the operation of the pay policy. For instance, in the public services it did not differ much over time and space, unlike settlements, yet qualitative evidence indicates that the high ratio reinforced the implications of the pay factors, preventing significant virement. Econometric techniques would not pick this up.

The analyses were more similar in their assessments of the institutional and strategic factors. Both agreed that pay rises were higher where the SCPC, pay links and Review Bodies operated, and were significantly reduced after the SCPC was abolished. The qualitative evidence was also able to identify a tightening up of their operation. Pay intervals were also agreed to be relevant. The only difference was that the qualitative study suspected arbitrations led to more significant increases than the econometric results implied.

Apart from the aforementioned differences in the perception of the role of the ability to pay, there was substantial agreement over the strategic approach of negotiators. Both agreed that staging worked against pay restraint as long as it lasted, and noted an employment-pay trade-off in the public services enabled higher increases to be negotiated. The narrow definition of comparability in each sector and the trend in the cost of living in the corporations sector were noted by botn as aiding de-escalation, while recruitment and retention was insignificant. Finally, each approach believed interim rises defused militancy, and that unemployment affected power in the public corporations, although the qualitative analysis concluded that unemployment levels and increases were also relevant in the public services.

In view of the general similarity of the findings of the qualitative and econometric approaches, it would seem that the argument of the thesis is basically sound. It is therefore possible to draw out the conclusions and implications with confidence. This is the task of the final chapter.

Notes

1. R.F. Elliott and J.L. Fallick, Pay in the Public Sector, Macmillan, 1981, Ch. 7.

2. NEDO, A Study of UK Nationalised Industries, Appendix Volume, HMSO, 1976, pp. 11-28.

PART V

ISSUE 4:

THE IMPLICATIONS OF THE

FINANCIAL PAY RESTRAINT POLICY EXPERIENCE

Chapter 10

Theoretical and Practical Implications

The analysis of the performance of the financial pay restraint strategy during the 1979-83 period of office of the Conservative Government contains insights of theoretical and practical value. This chapter draws them out. First, the theoretical implications are extracted. A tentative model of the impact on pay increases of financial pay restraint strategies is built in the light of the experience of the period studied. The practical implications are then derived. Light is shed on the efficacy of different approaches to pay control. Initially, in the second section, the relative effectiveness of the financial form of pay restraint policy and previous, more conventional, forms is explained on the basis of the research findings. Sections 3 and 4 take a more forward look, examining the probable consequences for pay control of different styles of financial pay restraint strategy that have been suggested, and also of alternative forms of strategy. A final conclusion follows in which the outlook for the cash limits pay restraint approach is assessed.

1. A Tentative Theory of the Impact of Financial Pay Restraint Policies

The objective is to develop a series of general propositions concerning the impact of financial pay restraint policies in the UK public sector which can be used to help interpret other phases of policy, and also to facilitate the assessment of policy options. In view of the broadness of these purposes, the model necessarily cannot focus too closely on the circumstances of particular authorities or the specifics of particular pay rounds, but must remain relatively general. Chapter 2 suggested a broad theoretical framework: the empirical findings of the study allow it to be refined, permitting the isolation of the major explanatory variables. Since the factors of relevance are so many and variable it is impossible to produce a theory which categorically states how negotiators will behave under a cash limits pay restraint policy. Instead, a contingency theory is appropriate in which relationships are developed between pay increases on the one hand, and, major influences on the other.

The essence of the theoretical model should be fundamentally clear by now. It is that the impact of a financial pay restraint policy depends on the economic-political and institutional contexts in which it operates and on how it is interpreted by negotiators in formulating their strategies.

The first proposition is that the financial constraints felt by negotiators depend not only on the pay restraint policy pay factor, but also on the wider financial setting. The stringency of other government constraints on the finance it provides to authorities is relevant, particularly the implicit real growth of finance, assuming the pay factor is respected. Total budgets are also affected by access to other sources of finance, especially rate income and product revenue which depend on rate limitation and market liberalisation; and by the ability to spend it free of expenditure controls. Flexibility within the budget is restricted by the ratio of labour to total costs. Pay is more likely to be controlled when governmental and other finance are both subject to firm limits, and the proportion of labour costs in total costs is high.

The second element in the theory is that the overall constraints on finance are more stringent when the pay restraint strategy is implemented in an economic-political environment where: first, the government dominates the political market and is disposed towards pay and expenditure control, overriding the self-interest of the other actors, such as authorities and unions; second, where the government uses its political power to force local political submarkets in local authorities and public corporations to control finance; and, third, where the economic markets of public corporations show downward demand trends.

A third theoretical component is that the institutional environment influences pay control through the organisation of management and unions, bargaining structure and pay determination procedures. Restraint is furthered especially by the control of management negotiators by government representatives on bargaining bodies, or by other management groups, such as the finance function. For union organisation to threaten pay restraint there has to be a historically significant degree of inter-union cooperation. Bargaining structure usually facilitates control when bargaining is centralised, bargaining units are consolidated, agreements formally control local additions to pay, and the scope of agreements covers working practices, enabling unit labour costs to fall. However, management control systems can make other structures equally conducive to pay restraint. Pay determination procedures are less inflationary when they do not establish formal comparability criteria; when third parties recognise the ability to pay as a relevant pay determination criterion; when the pay round has a weak leader or key bargaining group; and when payment systems restrict or control local flexibility.

The fourth and final proposition is that bargaining strategies independently influence pay increases. Negotiators' interpretations of the financial constraints are extremely important since the constraints are rarely binding. For control, the normative and calculative reasons for not stretching the constraints too much - particularly the employment and service effects - must outweigh the benefits of achieving comparability, real wage and other objectives. The government's objectives are also likely to be attained to a greater degree if unions are relatively weak, especially if the level of, and increase in, unemployment is high; if competitive goods and services markets provide alternative sources of supply; and if political access to appeal to government is denied or fruitless. Finally, union resistance is curbed if the pay of comparators is kept roughly in line with that of the public sector and price inflation is low; and if government and media exhort the general population regarding the seriousness of the economic situation.

It should be emphasised that the highlighting of these conditions for pay restraint is not to deny the relevance of other factors, such as the type of worker organisation, management politics and bargaining tactics, nor to reject other ways in which featured factors might influence pay increases, such as the detailed modus operandi of Review Bodies or pay links; the objective is simply to draw out the more significant universal and enduring characteristics of public sector pay determination that are likely to impinge on the performance of a cash limits pay restraint strategy.

2. The Relative Effectiveness of Financial and Conventional Pay Restraint Strategies

The statistical analysis of the performance of the financial pay restraint strategy in Chapter 5 showed that the counter-inflationary impact was similar to the best conventional incomes policies of the 1960s and 1970s. However, those comparisons were between periods when the policies were 'on', that is, when they were operated as desired. To gain a true impression of the policy effects, a longer perspective is required. When this is adopted, it transpires that conventional incomes policies tended to be relaxed or ignored, and 'catch-up' phases ensued, which offset the initial effect to a greater or lesser extent.[1] However, in the period studied, the cash limits policy showed no signs of weakening. This was a significant difference, particularly as the policy had been in force so long, (even excluding CL1 when catch-up awards were still being made to correct the anomalies caused by the previous strategy).

This section seeks to explain the overall performance of the two types of approach to pay restraint in the public sector. It is helpful to analyse the policies within the framework of the policy characteristics isolated in Chapter 4: policy design, (the type of general pay rule and exceptions), and policy support, (the agreement and enforcement provisions, and the use of auxiliary policies). The essence of the explanation is that incomes policies tended to fail in the longer term because their design and support took insufficient note of pay determination realities relating to the state of the economic-political environment, the institutional context, and negotiators' strategies. In contrast, the cash limits pay restraint policy did not conflict with realities.

2.1 Policy design

First of all, there was often a substantial conflict in incomes policy between the policy design and negotiators' strategies. Even at their latter stages, policies were aimed at individual or group average pay increases. As a result, there was little flexibility in the general pay rule to allow bargaining objectives to be met within the policy. Furthermore, the exemptions to the policy were generally defined in detail, while special cases required government approval, where allowed. It was not always the case that the groups with the largest claims met the criteria in the policy design or were in a position to obtain government approval.

The cash limits policy in contrast, was more flexible, being addressed to the budgets of authorities. As well as by using rate and revenue exceptions to the policy, pay increases above the pay factor could be given, since employment and services could be reduced at least to some extent. The conflict between the policy and bargaining arguments was thus smaller, other things equal.

Consequently, the potential for policy-breaking settlements was greater under incomes policy. Once the rules were broken, general respect for the policy diminished, and the policy then had to be dropped or relaxed, resulting in a catch-up phase.

Compounding this, the general pay rules of incomes policies usually revealed a desire to be equitable; to the extent that exceptions were allowed, they tended to be relatively small. Problematically for pay control, equitable treatment was at odds with the unequal distribution of bargaining power. Strong groups were most restrained by the policy, other things equal, and were in the best position to rectify the situation. A policy breakdown was always possible.

On the other hand, the cash limits approach imposed varying degrees of restraint across the public sector which correlated with variations in bargaining power. For example, the unions with the greatest economic and strategic power were in the energy and utilities sector, where the financial constraints yielded the greater freedom of manoeuvre. The relatively weak economic, political and strategic bargaining power of the unions in the public services, meanwhile, was matched by tight financial constraints. As a result, the policy accommodated, rather than was threatened by, the distribution of power.

2.2 Policy support: enforcement and agreement

The provisions in incomes policies regarding enforcement, and the basis of agreement between government and the parties, tended to conflict with the realities of the political environment. The implication was that support for the policy was liable to erode. The financial approach was better supported by the political context.

First, the government's position in the political market under cash limits was powerful. The policy could therefore be enforced without undue difficulty. Enforcement was sometimes more problematic under incomes policies where the government was more prepared to consult the parties, and was obliged to change its position, such as under Phase 4 in 1978-79 when the policy was modified after union deputations to the Prime Minister.

Second, the government's incomes policy rules regarding notification were not always matched by an effective enforcement mechanism in the political market. Arrangements for notification were frequently ad hoc and required the cooperation of authorities, especially in the public corporations sector. Policy circumvention was more likely than under cash limits, where the FIS system operated by the Treasury ensured that cash limits were respected, in line with government wishes.

Third, where agreement to incomes policies was secured, the political market could not guarantee continued support. In terms of the political market structure, the TUC had no right to intervene in member unions' negotiations, although it could certainly bring pressure to bear. In turn, national unions could not easily control the rank and file. In terms of attitudes, unions had fundamentally different attitudes compared to government: any agreement to pay restraint could only be temporary. Thus the preference for enforcement of cash limits, rather than agreement, aided the policy's long-term prospects.

Fourth, the enforcement rules in incomes policy were not always reinforced by similar political market attitudes over the long haul. For example, electoral considerations sometimes led governments to relax policies in the face of opposition. In the case of cash limits, the government had the political will to pursue the policy even as the 1983 election approached.

2.3 Policy support: auxiliary policies

Under incomes policies, the patchwork of auxiliary policies often failed to counteract inflationary forces in pay determination. The policies operated in conjunction with cash limits were more sensitive to this.

First, economic policies operating alongside incomes policies frequently allowed unemployment to be relatively low, giving workers more power to oppose the pay limitations. This reflected a fundamental conflict: one of the central objectives of incomes policy was to reduce inflation without creating unemployment, yet low unemployment threatened incomes policy. During the cash limits policy, on the other hand, persistently high unemployment dampened the economic bargaining power of workers.

Second, private sector incomes policy often failed to take adequate account of the importance public sector negotiators attached to comparisons with the private sector. Although incomes policies were usually formally the same for each sector, they tended to have a differential effect due to the relative inability of public sector workers to take advantage of productivity exemptions; their smaller opportunity for increases in non-basic elements in pay due to the make-up of pay; and different degrees of enforcement.[2] For example, the private sector received relatively greater increases under Phase 3 in 1977-78, fuelling the crisis for incomes policy in the following year. Although cash limits pertained only to the public sector, monetary policy operating in the private sector, potential problems were avoided by the policies being run to produce overall similar constraints on pay determination.

Thirdly, as Chapter 7 showed in detail, the cash limits policy induced institutional changes in formal criteria, third-party intervention, and payment systems that reduced the chances of policy-breaking. Under incomes policies this did not tend to happen: the institutions were merely suspended. Over time, there emerged a difference between actual pay increases and what was implied by the criteria or what would have been awarded by third parties. Discontent consequently grew, and threatened the policies.

In sum, this analysis points to a number of contradictions between the design and support of incomes policy on the one hand, and the realities of public sector pay bargaining on the other, that tend to arise in the later years of the policy's lifetime. These conflicts did not arise, at least to the same extent, during the 1979-83 period of cash limits pay restraint policy.

3. The Potential Impact of Variations in the Style of Financial Pay Restraint Strategies

During the 1979-83 era of cash limits pay restraint, a number of suggestions were made by various parties regarding possible changes to the modus operandi of the strategy, but were not taken up. This section spells out the major ideas and assesses their implications for the counter-inflationary effort on the basis of the theoretical model developed in the first section. For pedagogical purposes, the proposals are grouped according to whether they affect the policy design or the policy support.

3.1 Policy design proposals

The suggestions that were made had the objective of making the policy more flexible. First, it was proposed that the general pay rule - in the form of the pay factor - should be allowed to vary rather than be fixed. For example, the TUC wanted cash limits to expand to fund pay increases, which, it believed, the Government would accept only if determined by comparability.[3] The Megaw Commission produced similar recommendations:

> the Government should as far as possible build realistic assumptions into its cash limits based on what is happening in the private sector.4

These proposals had their general public expenditure counterpart in the fecommendations of the Armstrong Committee which urged that general inflation above the expected inflation rate be reimbursed, but not the relative price effect, (that is, cost increases peculiar to the public sector).[5]

The implications for pay control of the introduction of a flexible general pay rule would probably be to slightly increase wage inflation in the short run, given that private sector pay showed a tendency to lead the public sector when stable pay factors operated. Much would depend on the efficacy of pay restraint in the private sector. A difference of opinion exists regarding the long run. The argument of protagonists was that there would be no inflationary breakdown of policy because comparability had been respected.[6] Against this, the evidence in this study indicates that there need not necessarily be an explosion under cash limits if the totality of conditions are favourable.

A second plan was to allow more exceptions to the policy. It was proposed that more special cases could be financed out of a larger contingency reserve.[7] Again, there would be increases in pay inflation in the short-term, other things being equal. Not only would there be a direct contribution, but also the diversity of increases might produce counterclaims, particularly as the comparability criterion would likely be important within the public sector. In the long run, tnere might be less chance of a policy breakdown, but, as before, it might not occur anyway.

3.2 Policy support proposals

Along with the policy design proposals was often a proposal that parties other than the Government should agree the pay factor. For example, the TUC wanted to agree the comparability links with the Government, and hence the pay factor.[8] The National Association of Health Authorities, meanwhile, wanted to see Ministers advised by health authorities as to the pay factor. Such changes would weaken the power of the Government in the political market and, given the interests of the parties, would reduce control over pay.

Changes in auxiliary policies were widely suggested. Economic policy proposals centered on reflation. While the rationale was not usually related to pay determination, the state of demand would obviously influence pay by increasing the economic bargaining power of unions. Pay restraint would be less successful as a result.

One other economic policy, put forward by the Institute of Directors, was the breaking up of public corporations into smaller units. The objective behind the scheme was to 'break the bargaining monopolies.'[10] Certainly, the experience of the 1979-83 period indicates that greater competition would decrease union economic bargaining power (by increasing the elasticity of demand for labour), and would weaken union strategic power due to the growth of alternative sources of supply. Lower inflation could be expected.

Institutional changes to be discussed included reform of the organisation of NHS management for bargaining. The National Association of Health Authorities proposed a policy council, of district and regional chairmen and the Management Side Whitley Council chairmen, which would increase coordination in pay negotiations, give evidence to Review Bodies, and advise Ministers on cash limits and service priorities.[11] The implication of this would be to improve grass-roots control, but it would be unclear whether pay restraint would be hindered or helped since the Association favoured comparability, but disapproved of Review Bodies, leading to contradictory implications for pay increases.

Decentralised bargaining in the NHS and local authorities was a further aspect of the Institute of Directors' plan for public sector pay.[12] One rationale was to make groups identify with local market realities, but this would be likely to inflate as much as deflate pay increases, according to local conditions. The other rationale, to keep disputes small, might have been prompted by a desire for weaker unions, but even local groups have monopoly power. The impact on inflation would therefore be uncertain. In any case, as this investigation has stressed, management control mechanisms largely determine the efficacy of a bargaining level.

Three main suggestions were made concerning pay determination procedures. One was the greater use of Review Bodies. The Government had said throughout the period that it wanted to provide long-term pay arrangements for nurses given their reluctance to strike in 1979, but did not decide to set up a Review Body (for both nurses and PT(A) staff) until the end of CL4.[13] The prospective impact on pay was rather small in view of the new willingness of Review Bodies to take account of factors other than comparability.

The second development was the Megaw Commission's proposal for 'informed collective bargaining' in the non-industrial civil service. To recall, it would be modified form of comparability, with negotiations to take place within the interquartile range of private sector pay increases.[14] The effects on pay increases of a system such as that suggested would probably be to raise them above what they would be under 'free' collective bargaining; but they would be unlikely to exceed the rises that would be generated by a PRU-type exercise. The planned system would give the Government a more powerful position than under pay research: it would be able to appoint the Pay Information Board from outside the civil service to determine comparisons. In addition, consultants would collect the data, which, it is alleged, might bias the results in the Government's favour.[15] The unions would not be able to participate in the analysis of the data.[16] However, the degree of restraint would depend largely on the effectiveness of private sector restraint and hard bargaining by the Treasury.

Third, several parties suggested the establishment of an independent body to assess comparability for public sector groups.[17] However, this would not of itself affect inflation unless negotiators were otherwise misestimating the pay of comparators. The only concern from the point of view of pay control would be that comparability would rise in the public consciousness making it more difficult to reach settlements based on the ability to pay.

Overall, therefore, there have been several reforms put forward. In most cases it is difficult to be precise about the likely effect of their introduction, apart from in a ceteris paribus world. As the theoretical model emphasises, the impact of the financial pay restraint policy can only be judged in conjunction with the context in which it operates. However, it is likely that the fragmentation of corporations would aid control, while a more flexible policy design, economic reflation, new Review Bodies and informed collective bargaining, might frustrate it, compared to the situation existing at the conclusion of CL4.

4. Implications for Alternative Forms of Pay Restraint Strategy

Three major alternative pay restraint strategies received publicity in the 1979-83 period: conventional incomes policy; a national economic forum; and a tax-based incomes policy. None of these were directed solely at the public sector, but each carried implications for it. This section analyses whether they would be likely to be successful instruments of pay restraint.

First, incomes policy was suggested by certain observers and politicians, such as the Labour Party's Joel Barnett.[18] However, as discussed with reference to past policies, incomes policies tend to have only a short-term effect. This was acknowledged by some: for example, the twelve unions, which recommended an approach similar to the NBPI policy soon after Phase 4 broke down, admitted it was a case of 'try, flop, learn a bit, try again'.[19]

The notion of an economic forum was suggested both by the Conservatives prior to the 1979 election and by the TUC and Labour Party in 1983.[20] Although the broader role of the forum differed markedly in the plans, its immediate role was more similar: the prospects for the economy were to be discussed and the implications for pay determined. There are a number of reasons why such an approach may not guarantee pay control. First, the political market structure would leave the government in a vulnerable position if there was any negotiation of the economy's ability to pay. Second, there would be no assurance that individual unions would agree to the terms reached by the TUC because of their independent status in the political market and potentially different views. Third, there may be a conflict between the features of the institutional context and of bargaining strategies on the one hand, and the decision of the forum on the other.

The tax-based incomes policy suggestion took many forms. One variant, put forward by Layard and Jackman, established a norm for pay increases above which employers paid tax penalties, except in the public services where awards were made on the basis of the norm plus any catch-up required due to the private sector exceeding the norm the year before.[21] Another plan, suggested by the leader of the Social Democratic Party, visualised the private sector controlled by an inflation tax, while public sector workers received increases equal to those of the private sector the previous year, plus or minus an amount representing changes in efficiency.[22] In both conceptions the catch-up increases, although a year late, would be likely to add to wage inflation in the public services compared to a cash limits-based policy where comparability was denied. Against this, however, the Layard policy would control the public corporations assuming the taxes could not be totally passed on to the consumer. More indirectly, the use of a norm would be a more assured means of controlling private sector pay than monetary policy, and hence of reducing the potential for relativities claims and the escalation of pay. At the same time, just like cash limits, exceeding the norm would not constitute breaking the policy: the respect of other groups for the policy would be maintained. The net effect of these implications is uncertain.

It appears, therefore, that the incomes policy and economic forum ideas would not be viable options for public sector pay restraint, while tax-based incomes policies would not clearly improve on the cash limits approach.

5. The Outlook for Financial Pay Restraint Policies

In conclusion, having determined that cash limits pay restraint policies lowered public sector pay inflation, two questions that spring to mind are, first, will the policy effects be maintained even longer?; and, second, should the policy be retained?

With respect to the first issue, at the end of CL4 the conditions were ripe for the continued containment of inflation. Over the longer term, counter-inflationary success might be weakened by economic policy changes or an export-led economic upturn which reduces unemployment and gives unions more power. Also, if monetary policy ceases to have relatively similar effects as cash limits, upset private-public relativities might generate higher claims. Finally, of course, a change of government could change the design of, or support for, the policy, and hence pay increases.

The normative question of whether the cash limits pay restraint policy should continue cannot be answered strictly on the basis of the evidence: value judgments would have to enter. Suffice it to say, whatever the verdict, it is important to analyse not only the benefits of reduced inflation, but also the costs, such as in terms of unemployment or reduced services caused by the policy, and the need to undermine the economic bargaining power of the workers. Financial pay restraint may work; but so does hanging.

Notes

1. See also, for example, S.G.B. Henry and P. Ormerod, 'Incomes Policy and Wage Inflation: Empirical Evidence for the UK 1961-1977', NIER, Aug. 1978, pp. 31-39.

2. Campbell Balfour, Incomes Policy and the Public Sector, Routledge and Kegan Paul, 1972, Ch. 7; D. Winchester, 'Labour Relations in the Public Sector in the United Kingdom', in C.M. Rehmus (ed.), Public Employment Labor Relations, ILIR, 1975, p. 74.

3. TUC Health Services Committee, 'Cash Limits and NHS Pay Determination', NHSLR 4/1, TUC, May 12, 1980, para. 37.

4. Sir John Megaw, Report of the Inquiry into Civil Service Pay, HMSO, Cmnd. 8590, July 1982, para. 218.

5. Treasury and Civil Service Committee, Budgetary Reform, Session 1981-82, Sixth Report, para. 3.21.

6. Megaw, op. cit., for example.

7. TUC, op. cit., para. 36.

8. Ibid., para. 37.

9. P. Bassett, 'Health Employers want pay policy council in new system', Financial Times, 6 May 1983.

10. J. Ardill, 'Directors offer plan to curb public sector unions', Guardian, 25 August 1982.

11. Bassett, op. cit.

12. Ardill, op. cit.

13. IDS, Incomes Data Report No. 397, March 1983.

14. Megaw, op. cit.

15. A. Jones, 'Plus ca change...', Observer, 11 July 1982.

16. IDS, Incomes Data Report, No. 384, Sep. 1982, p. 7.

17. For example, Bassett, op. cit.; SCPC, Report No. 9: General Report, HMSO, Cmnd. 7995, Aug. 1980.

18. J. Barnett, 'Labour must have a pay policy to remain credible', Guardian, Dec. 19, 1979, p. 16.

19. IDS, Incomes Data Report, No. 300, March 1979, p. 27.

20. IDS, Incomes Data Report, No. 399, April 1983, p. 25.

21. R. Jackman and R. Layard, 'An Inflation Tax', Fiscal Studies, March 1982.

22. P. Beaumont and J. Leopold, 'Public Sector Industrial Relations: Recent Developments', Employee Relations, Vol. 7, No. 4, 1985, p. 32

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