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Radharaman's Review

PRIME MINISTER

Cabinet: M.P.s' Pay

The moral impact of M.P.s' pay rises reverberates through the economy. The June, 1979 settlement was a political disaster. Conversely, we have seen this year how a moderate pay offer can be turned to the advantage of the pay round as a whole.

The Select Committee have been tempted, as M.P.s have been before, to try to devise "orderly arrangements": in this case, a combination of an independent review and an automatic link. Superficially attractive, both these elements are open to serious objection.

Independent Review. Review bodies often come up with politically unacceptable recommendations. In theory, the Government could still mobilise its majority to slice off the top of any excessive pay recommendation. But in practice, any interference with the sacred automaton would be vigorously resisted. The business of scrutinising, modifying or over-ruling the recommendations of a review body would be painful and untidy, and the Government would risk running into even greater trouble from its own supporters than it does under the present system.

Automatic Link. All such links are bound to push M.P.s up the pay scale. That, after all, is the real intention behind the claim. M.P.s would benefit from productivity gains and wage drift elsewhere in the economy.

The Select Committee's proposals are an attempt by Parliament to weaken the Government's power over the levels of M.P.s' pay. It is as if the Select Committee is acting as the national executive of the M.P.s' trade union. And the result could be widely resented - if, for instance, M.P.s got away with significantly more than the going rate in private industry.

We are, therefore, doubtful about the recommendations in the memorandum from the Chancellor and the Lord President; and suggest that it would be better to proceed as follows:

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- (i) If it would command a majority in the House - which we are not in a position to judge, although we think the assumption in the paper is open to question - it would be best to continue to treat M.P.s' pay as we have this year, by a vote in the House on the basis of an annual proposal by the Government.
- (ii) If the judgment is that M.P.s must be given more than that, the next best option is the four-yearly review without automatic adjustments - the interim pay rises should be determined by the Government.
- (iii) If some form of annual automatic adjustment is absolutely unavoidable, the link with public service comparators is preferable to the link with the NES; and
- (iv) the Government should, in any case, argue that new pay determination arrangements for M.P.s would be premature until the shape of public service pay determination generally becomes clearer after the report of the Megaw Inquiry.

FM

FERDINAND MOUNT

24 May, 1982

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