



Treasury Chambers, Parliament Street, SW1P 3AG
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PRIME MINISTER

PUBLIC SERVICE PAY

As agreed yesterday, I have discussed with Norman Fowler the NHS angle to the choices we face on the Review Body reports. Like him, I feel considerable unease about the wider implications of implementing the recommendations of all three in full. The consequences which concern me are not just on the NHS, or even just on public expenditure - though they are substantial for both - but on our whole pay stance and strategy.

2. There is no question about the AFPRB; we must clearly implement its recommendations in full. The problem concerns the DDRB and the TSRB.

3. The hinge is the DDRB. If we pay the full 9 per cent, including the 3 per cent catch-up, we shall change the entire context of the unsettled scene on pay for the nurses and other NHS elements; in Norman Fowler's words, we shall be tossing in a grenade. We shall certainly remove whatever chance there may be that the nurses will settle at 6.4 per cent, and the lower offers to other NHS classes, already acutely difficult, will become unsustainable. Norman and I are considering the questions which arise in any event of whether, when, and how far the Government will have to move on these matters, and how to finance the outcome; but the immediate point is that the levels at which we can eventually settle in the NHS, with or without industrial strife, will certainly be substantially higher with 9 per cent for doctors than with

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6 per cent. When the extra costs of this are added to the direct cost of the 3 per cent catch-up (£60 million) the real net difference between 6 per cent and 9 per cent in the DDRB field will be at least £100 million - Norman Fowler is inclined to suggest some £200 million.

4. The damage goes wider. We shall surprise everyone, including (I suspect) even the doctors and dentists themselves, in giving 9 per cent on a report which almost sets up the 6 per cent option for us. Alongside the NHS repercussions which will be plain to everyone, this will transmit a general message that the Government has eased up on pay - that we have let go of the rope. This will cut right across one of our most crucial economic themes, just when - in my view - it was beginning to strike home. The climate for 1982-83 may well be significantly affected.

5. I recognise the "clean-sheet" argument for accepting the Review Bodies' recommendations as they stand - not least to reduce the likelihood or the scale of renewed difficulties with the doctors and others next year, when the scene may be no easier. This has real attractions. But I cannot believe they weigh equally in the scale with the contrary considerations outlined above.

6. I recognise also the more particular advantages which underlay yesterday's general preference for implementing TSRB in full. Again, however, I cannot think they match the wider arguments. Moreover, given the scale of the recommended awards, I believe we could still substantially secure those advantages even after a 5 per cent abatement to accompany a 6 per cent decision on DDRB.

A handwritten signature in blue ink, appearing to be 'G. Howe'.

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GEOFFREY HOWE

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7. Copies of this minute go to our Cabinet colleagues, to the Attorney General and the Chief Whip, and to Sir Robert Armstrong.

G.H.

28 April 1982

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