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Prime Minister

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MS

Please see Mr Fowler's minute (attached).

What he wants is a private meeting with you.

Mr. Scholar

c.c. Mr. Walters
Mr. Mount

But should not be Chief

Secretary, Mr Tebbit, and perhaps also the Welsh and

Scottish Secretaries be invited? Shall I arrange a meeting on that basis? M/S 11/6

I will see Mr Fowler
close - but will
do see him with the
others later

I have seen Mr. Fowler's note of 10 June to the Prime Minister, explaining and attempting to justify some of the activity that was going on behind our backs earlier this week. I have also seen from Hansard that your and my efforts yesterday to ensure that not too much was given away on long-term arrangements for NHS pay were successful. But I think the Prime Minister should be left in no doubt about what the Government has become committed to, as a result of these developments, and without collective discussion among either officials or Ministers:-

(a) The introduction of Mr. Pat Lowry, on however a personal and informal basis, is tantamount to arbitration because he is bound to reach a recommendation for a settlement, and that is bound to become public knowledge; and because we asked him in in the first place, we shall be under pressure to accept it. Mr. Fowler has already mentioned 7½% for the nurses, and the eventual outcome may well be higher. So we have lost the principles of affordability, of market forces, and of the Government's responsibility for determining public service pay.

(b) Despite Mr. Fowler's caution in the debate yesterday, both he (on Tuesday in discussion after his PNQ) and Mr. Clarke (on the Today programme yesterday) have effectively committed the Government to negotiation of a new pay determination system for all NHS staff, comparable to that proposed for the nurses. That cuts right across our plans to establish a new system for the Civil Service on the basis of the Megaw recommendations, and then to see whether it could be applied more widely in the public services.

The transcript went
into last night's
Box
M/S

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And it is clear from Mr. Fowler's note that he also wants:-

- (a) to give more money to the ancillaries ("some very limited improvements");
- (b) an increase for the doctors and dentists; and
- (c) to give the whole of the NHS access to arbitration next year, since no new arrangements could be worked out in time.

In my view these proposals amount to the exact opposite of the objections he set out in his third paragraph: a surrender to industrial action, and pay outside the limits of available resources.

There must certainly be a Ministerial discussion, as suggested by Mr. Fowler. I would hope that at such a discussion, his proposals might be viewed in the wider context of the damage they threaten to our approach to pay in the public sector as a whole:-

- (a) Far too much is now finding its way into the hands of independent judges of what pay levels should be. This year, the Civil Servants, teachers, armed forces, doctors and dentists, policemen, firemen, and gas workers have all had their pay set by arbitration, review bodies, or indexation. Mr. Fowler proposes to add the health service. It would be ludicrous for a Government committed to determining pay on the basis of affordability and market factors to end up handing over responsibility for almost the whole of the public service to outside agents.

/ (b)

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- (b) As I commented at an earlier stage, our handling of the end of this year's public service pay round is bound to set the tone for the next one. If we are seen to be giving in to totally unjustified claims by essentially weak groups not carrying much public support, such as the NHS ancillaries, what chance do we have of convincing tougher unions, some of them with stronger claims, of our determination in the next pay round?

ck.

11 June, 1982.