

CONFIDENTIAL

cc John Hoskyns
Alan Walters

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~~Mr. Whitmore~~

~~Prime Minister~~

~~You could see the Chancellor at 6.00 pm on Wednesday 9 September after your briefing meeting for Mr. Whitmore's visit. Agree?~~

Time / Note: I have suggested to PM she should see the Chancellor at 11.15 on Monday 7/9.

MR. RICKETT

Pay and Price Factors for the Public Expenditure Survey

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We had a word this morning about preparation for the Cabinet discussion on 15 September on public expenditure.

Treasury officials have now confirmed to me that the Chancellor hopes to let the Prime Minister see in her box this weekend the draft of his paper for the 15 September Cabinet. As I mentioned this morning, I think it is essential that the Prime Minister find time to discuss this with him before he circulates it to his other colleagues, and I understand the Chancellor feels the same way. You indicated to me that this might be possible after the meeting of Ministers on the morning of 7 September; perhaps I could leave it to you to take this forward with the Chancellor's private office.

The main point that the Prime Minister needs to discuss with the Chancellor will be the pay assumption for cash limits. There has been considerable discussion at official level about this, in which I have been involved, and I understand the Chancellor now favours an announcement fairly soon after the 15 September Cabinet on separate pay and price factors; and that this should be in the range 4-5% for pay and 9-10% for prices (he may want to propose to his colleagues 4% for pay, holding back 1% in reserve, and 9% for prices if the latest Treasury forecast justifies that).

Whatever figure is chosen as the pay assumption will have a very considerable effect on the pay round now starting, and not just in the public sector. We have had some ideas of our own about the setting of the pay factor, which have not found favour with the Treasury; I will let you have a note about the Chancellor's proposals when we have seen them, and after I have had a chance to consult John Hoskyns and Alan Walters.

2 September 1981

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