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From the Principal Private Secretary

17 April 1980

When the Chancellor of the Exchequer called upon the Prime Minister at 0900 this morning the following were the main points which arose in discussion.

IRAN

The Chancellor of the Exchequer said that he had let the Governor of the Bank of England know the conclusions which OD had reached at its meeting on 15 April. The Governor was very concerned that there should be no discussion at the forthcoming meeting of the Foreign Affairs Council of the possibility of taking legislation to provide for mandatory action on Iranian loans, deposits and credits.

The Prime Minister said that OD had agreed that it would be preferable to take action on this point by means of persuasion rather than by legislation. The Chancellor should minute other members of OD explaining the Governor's concern and asking for their agreement that the Foreign and Commonwealth Secretary should not mention the possibility of legislation for this purpose at next week's meeting with the other Foreign Ministers of the Nine.

PUBLIC SECTOR PENSIONS

The Prime Minister said that she remained of the view that Mr. Drain should not be invited to become a member of Sir Bernard Scott's group on index linked pensions in the public sector. Mr. Drain was the leader of a union whose members now enjoyed inflation proof pensions and as such he would find it impossible to make a proper contribution to the enquiry.

The Chancellor of the Exchequer said that he would arrange for Mr. Leif Mills to be invited instead.

PUBLIC SECTOR PAY

The Chancellor said that he hoped to bring forward quickly the work which he already had in hand on public sector pay. In the meantime it was important to correct the wrong impressions which had resulted from his appearance before the Select Committee on the Treasury and Civil Service earlier in the week. There was now a belief

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that the going rate for public sector pay in the present year was 25%. He was proposing to issue a statement either today or tomorrow which would make clear that the figures which he had quoted to the Select Committee embraced a good deal of catching up pay awards of the Clegg kind and that they were fully consistent with approved cash limits.

More generally, the future level of pay settlements was critical to the attempt to reduce the money supply. It looked as though the money supply figures for this month would come out satisfactorily, though inter bank lending was still running at too high a level. The new tap stock looked as though it would go well. But the fact was that because pay settlements were still at very high levels, they were putting up borrowing and helping to keep up interest rates.

The Prime Minister said that she would consider including something about the level of public sector pay increases in the speech she was due to give in Birmingham on Monday of next week. Looking further ahead to the next pay round, she believed that it was important to have an assessment of our ability to withstand a national rail strike. This meant essentially forming a view on whether the power stations could keep going during such a strike. She proposed to have a meeting with the Home Secretary, the Chancellor, the Secretary of State for Energy and the Minister of Transport to consider what work needed to be set in hand on this.

SELECT COMMITTEE ON THE TREASURY AND CIVIL SERVICE

The Chancellor said that his appearance before the Select Committee had shown that its members were determined, regardless of Party, to attack the Government wherever they could. Mr. du Cann wanted to maintain the unity of his Committee and not to let it divide on Party lines. The Chancellor added that he was due to appear before the Select Committee again in the near future and he expected that one of the principal areas of questioning would be unemployment. The Committee would be bound to press him for the Government's assumptions and predictions for future trends in unemployment, but he proposed to tell them that there were many areas where the Government could not hazard forecasts.

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