

SECRET

c.c. Mr. Whitmore  
Mr. Wolfson  
Miss Porter

NOTE FOR THE RECORD

Mr. Prior called on the Prime Minister at 1630 hours this afternoon, and made the following points:-

- (i) Reappointment of Mr. Jim Mortimer as Chairman of ACAS.  
Mr. Prior said that he had been unable to secure from Mr. Mortimer the letter on the future terms of reference for ACAS which he and the Prime Minister had hoped for; nonetheless, he still thought that Mr. Mortimer should be reappointed. The important point was that Mr. Mortimer accepted that ACAS should lose its "statutory recognition" function; and this was set out in a letter which Mr. Mortimer had sent him. The Prime Minister said she would like to see this letter before agreeing to the reappointment.
- (ii) Clegg. Mr. Prior reported that he had seen the Clegg Commission's recommendations on the first 5 references. These showed increases of less than 2% for the lowest grades, which was very encouraging; the overall increase (over and above the 9%) came to 12% because very large increases were recommended for higher grades. The Commission had not been able to make recommendations on over-manning - which the Prime Minister said was unfortunate. (Mr. Prior said that these figures were extremely sensitive, and should not be used.)

(iii) Public sector industrial relations and management.

Mr. Prior said that he was becoming increasingly worried about the weakness of management in the public services, particularly in the Civil Service. Senior managers had not been supported by Ministers over the past 5 years, and there was considerable evidence of "infiltration". If the Prime Minister agreed, he would like to discuss the matter with Lord Soames. The Prime Minister assented.

- (iv) Public expenditure. Mr. Prior said that he was very worried that the Treasury were aiming for excessive public expenditure cuts. In his view, the Treasury forecasts for the PSBR were too pessimistic. Other leading forecasters - particularly Mr. Bryan Reading's group - were forecasting a lower PSBR figure for 1980/81. It would be disastrous for industry if public expenditure was cut too much. The Prime Minister pointed out that the forecasters could be wrong in a downward direction as easily as in an upward direction, and she was sure that outside forecasts had been fully taken into account by the Chancellor. In any case, she did not accept the premise that public expenditure cuts would damage industry: industry would only recover if resources were freed from the public sector to the private sector.

12.

16 July, 1979.