



dc: Mr. Venetier  
Mr. Duguid  
Cabinet Office

039

SUBJECT  
cc to Master

10 DOWNING STREET

From the Private Secretary

7 September 1981

→ Meeting Record

INFLATION FACTORS FOR PUBLIC EXPENDITURE

The Chancellor minuted the Prime Minister on 4 September enclosing a draft paper which he proposes to circulate to Cabinet for discussion next Tuesday. The Prime Minister discussed the draft with the Chancellor this afternoon. The Prime Minister expressed some misgivings about the proposed 9% price factor as being on the high side; but the Chancellor argued that this was the lowest figure that could be considered realistic, given that the Treasury's latest forecast for the RPI between 1981/82 and 1982/83 was around 10%. The Prime Minister accordingly accepted that the paper should include the figure of 9% for prices.

As regards the pay factor, the Prime Minister also suggested that the proposed figure of 4% was too high. Although she recognised that a lower figure would seem to imply a perhaps unrealistically large reduction in real earnings for public servants, nonetheless she felt that a figure of 3% might be preferable. Insofar as there was going to be some flexibility in the coming year's Civil Service pay negotiations, it was necessary to announce a lower pay factor than the Government was expecting to achieve by way of outcome; furthermore, the lower the announced figure for the public service, the more this would help private and public sector industry to achieve low pay settlements. The Chancellor said that, on balance, he still felt that a 4% pay factor was the correct approach. However, he was prepared to reconsider the choice between 3% and 4%, and he would sound out those Ministers most directly concerned before reaching a final decision on what figure should be included in the paper.

There was also a brief discussion of the draft press statement. The Prime Minister said that this could be a good deal clearer: paragraphs 1 and 4, in particular, could be improved. It was suggested that paragraph 4 might read as follows:

"The pay factor does not carry the implication that all public service pay increases will or should be / 4% .7. Some will be less and some may be more. There is no automatic entitlement to any particular pay increase: each must be justified on its merits.

/ The increase

The increase of [ 4% ] is a broad measure of what the Government thinks reasonable to allow for the total increase in the public service wage bill."

**L. P. LANKESTER**

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H.M. Treasury.