

M. WALTERS

cc:- Mr Hoskyns
Mr Ingham
Mr Scholar ✓

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p.a.

ECONOMIC ASSUMPTIONS FOR THE INDUSTRY ACT AND THE
GOVERNMENT ACTUARY

I attach a copy of the Chancellor's minute of 27 October to the Prime Minister proposing the assumptions the Treasury should give, for the purpose of the Industry Act and the Government Actuary, in respect of unemployment, prices and earnings.

I am sure you will wish to comment on the substance of the figures: the Chancellor's basic approach, to compromise between the need to influence expectations and the need for credibility, seems to me to be right. But I think we should also warn the Prime Minister about the likely public impact the figures, particularly the prices and earnings figures, will have - and the consequences of that for pay bargaining. Michael Scholar has asked me to show a copy of the minute to Bernard Ingham, who will also wish to comment.

My own view is that an announcement that we no longer expect single figure inflation by the end of 1983 is bound to have an adverse effect on pay expectations, but is sufficiently well trailed in the forecasts which have recently been published for it not to cause a major stir. But a 7½% forecast for earnings is likely to be rather widely misinterpreted, since it will be set against the 4% cash limit planning assumption, and will, therefore, make it even less likely than it already is that the public services will be prepared to settle at 4%.

/Dg

SECRET

Do you see any justification for proposing a lower figure; if not, Bernard and I will have to turn our attention to ways of making it seem consistent with the sort of pay settlements we are looking for in the public sector.

E. M. VEREKER

27 October, 1981

SECRET