



CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Mr CropperSTRATEGY

You asked for my comments on Peter Cropper's minute of 13 June.

Peter's main proposition is that the policies set out in the medium-term financial strategy would only reduce inflation (and interest rates, I take it) very slowly, whereas the superimposition of a 5% cut in the real level of public sector wages and salaries would speed things up immeasurably.

The MTF route might in any case prove rather faster, I suspect, than either Peter or our forecasters imagine. But whether it does or not I am doubtful whether the 5% pay cut would make as much difference as Peter imagines. There are so many other factors at work.

That said, a reduction in public sector (and in particular Government sector) pay levels would clearly be desirable. It would of course mean abolishing Clegg and Pay Research, and also admitting that we were wrong ever to have accepted Clegg in the first place. Even if we agree to all this (and I for one on the whole do), I would not favour throwing down the gauntlet in the way Peter advocates. Nor, of course, would I countenance for a moment a 3% increase in all income tax rates.

All this looks suspiciously like panic.

PP

SALC

NIGEL LAWSON

16 June 1980