

PRIME MINISTER

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Pay Restraint and Additional Capital Investment

It is not at all clear what Mr. Heseltine expects to happen as a result of sending you this (Flag A) personal minute. This is a familiar theme for him, it is reminiscent of the social contract approach to pay policy, but it is an unfocussed proposal.

I would have suggested that you simply noted it. But we have now a minute from the Chancellor (Flag B), which raises no enthusiasm at all in this kind of idea, but proposes discussing it at E. Alan Walters (Flag C) has also written a note, arguing that Mr. Heseltine's note is ill-conceived, impractical and likely to lead to an undesirable result.

If you agree with Alan's approach, it would not be worth while for officials to work up the Heseltine scheme in detail, as proposed by the Chancellor. On this basis, the best way of responding to Michael Heseltine's minute might be to say that you have noted it, and that there will be a general opportunity to discuss these and other ideas about pay when E Committee looks at the 1982/83 pay round on the basis of the paper promised by the Chancellor.

Do you agree that I should respond in this way?

MCS

Yes. - I agree
with Alan
Walters note
not

4 June, 1982.