

CONFIDENTIAL

3 August 1982

RICKETT

cc Mr Mount (o/r)

MEGAW REPORT

The Prime Minister already knows, from my note of 29 July about her meeting with the Chancellor this evening, of our reservations about the Chancellor's willingness to endorse the Megaw report at this stage, as now indicated in his note to the Prime Minister today.

I hope she will pass on these reservations to the Chancellor tonight, but even if she does so, it is important that she also reply (or ask you to do so on her behalf) to the Chancellor's note, because it has been copied to all members of Cabinet.

At present, I think she needs to respond only to the Chancellor's report of the unanimous view of MISC 83 that the Government should try and negotiate a new pay system broadly on the basis of the Megaw recommendations. It would be reasonable to indicate that she does not think it desirable to reach that judgment until we are better-placed to assess whether such a system would produce pay increases over the next few years consistent with the Government's objective of increasing competitiveness and therefore employment; and whether in particular it would be likely to produce a pay increase in the coming pay round consistent with the Chancellor's own objective of substantially lower settlements this year than last.

Jr.

JOHN VEREKER

Prime Minister

MISC 83 agreed that it would be preferable to have a pay system, provided it met our essential requirements. Would you like me to tell the Chancellor's office that we should not go too far down this road until we are clearer that his proviso can be met, and to set out some of our 'essential requirements' as described by John Vereker above.

Yes please

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LM
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