

PRIME MINISTER

MEETING WITH THE CHANCELLOR

I suggest you might raise the following issues at your meeting tomorrow:

(i) Public attitudes on pay determination

We need decisions on how the two campaigns suggested by Sir Keith Joseph should be implemented. My separate note at Flag A makes some suggestions.

(ii) The new tax and price index

The Chancellor's minute at Flag B proposes that, provided the figures come out alright, the new index should be announced on 17 August - the day the July RPI figure comes out. As the minute points out, there certainly seem to be some snags in this new index; but on balance, I think it will be worth introducing. Over the coming pay round it ought to be helpful, and we have virtually said that such an index will be introduced. A final decision is not needed now: this can wait until the final figures have been worked out immediately on your return from Lusaka.

(iii) Public expenditure

I attach a break-down of the reduced plans for Department of Employment expenditure (Flag C). This shows that expenditure on the Manpower Services Commission will still increase significantly in 1980/81. If we need some further savings to finance an electricity discount scheme in the winter, this programme would be worth looking at. At Flag D are public expenditure by programme index numbers going back to 1974-75 which you might like to glance at.

The Chancellor may wish to raise with you his handling of publicity after his meeting with the TUC Economic Committee tomorrow. He is thinking of going on TV and radio to explain the Government's position on public expenditure. This seems an excellent idea: we can be sure that Len Murray will use the media to criticise the Government.

25 July 1979

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