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THE PRIME MINISTER

3 November 1981

Dear Mr. Goldsmith,

Thank you for your letter of 9 October.

The Government welcomes the continuing support of your members for its strategy and the emphasis we place on securing a lasting reduction in inflation as a precondition for economic growth. As you say, it is important to explain to the country at large the benefits of greater stability of prices, particularly in terms of the increased employment opportunities that will follow as the climate for investment improves and we compete more effectively in world markets.

I was interested to see that your members express a cautious optimism about the immediate prospects for their businesses. This ties in with other indications we have had, and, most recently, the encouraging figures on manufacturing production. The financial position of industrial and commercial companies has also improved in the first half of this year. These first indications of recovery do not do full justice to the underlying changes of the last two years. Most importantly, there seems to have been a big change in industrial attitudes, which has contributed to the reduction in the level of wage settlements over the past year and, vitally, to an
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increase in productivity. Taken together these developments mean that UK unit labour costs in manufacturing did not increase at all in the first half of this year. This is only a beginning. A lot remains to be done - not least in further reducing the level of wage settlements in the coming year - but I think there is enough here to justify the view of your members.

Of course there are still difficulties including in particular perhaps the high level of interest rates. These reflect in part, as you indicate, the deficits run for many years by Western Governments. But we must do everything we can to constrain our own public borrowing and so do what we can to ease the upward pressure on interest charges. In this context the effective restraint of public expenditure is vital. The Government recognises the burdens the recession has imposed on industry, and are concerned at the way the private sector has borne more of this than has the public sector. This is something we must change. There are three areas in particular where we are taking action.

We have set ourselves a target of 10 per cent reduction in Civil Service manpower by 1984, to the smallest Civil Service since the Second World War. Already the number of civil servants has been reduced by over 50,000. This represents real progress towards a more efficient and cost-conscious public service. Additionally, the Government has announced that 4 per cent is the general allowance which it is prepared to make to accommodate public service pay increases next year. This represents an assessment of what the taxpayer can afford and more generally what the economy requires if there is to be a chance of restoring the competitiveness and jobs lost by recent excessive wage increases.

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On local authorities, we have announced our intention to introduce early legislation to increase the electoral accountability of high-spending authorities and to shield the non-domestic rate-payer from the consequences of excessive spending. And, as you say, we intend to publish soon a consultative document on rates. The Government will continue to exert its influence to restrain local authority spending; but in the last analysis the responsibility lies with the authorities themselves. Pressure from public opinion can do much to create the right climate as for example the recent report from the CBI has shown. Your own members have an important part to play here.

I very much agree with the thrust of your comments about nationalised industries. Nationalised industry price increases have I know been a continuing source of concern. To some extent this has been the delayed result of the lifting of the last Government's artificial and distorting price restraints. But there is a deeper problem here too, in that the performance of many of the industries - especially in terms of efficiency and labour practices - has been disappointing. This is particularly serious in those industries not fully open to competition. There are public expenditure consequences here, as well as implications for service to consumers.

Our belief is that the most promising means of improving performance lies with privatisation. I am grateful to you and your Institute for your continued interest and support on this. As you know, the Secretary of State for Energy announced on 10 October proposals for a number of privatisation measures in the energy field, including the transfer to the private sector of BNO's entire oil producing business, and the privatisation of BGC's

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offshore oil interests. We shall also be introducing powers to abolish the BGC's statutory rights over the purchase of gas and its sale to industry. In the same week we announced that we would be accepting the bid for the National Freight Corporation which has been made by a management-led consortium, and we offered for sale just under half the equity in Cable and Wireless. There is still much to be done, and we shall need especially to give thought to the most promising ways in which we can introduce private sector disciplines into the large monopoly industries.

On fiscal policy it remains our objective to secure a further improvement in incentives by reducing the burden of personal taxation. But our ability to take the 1979 reductions further has been affected by the effects of the recession on our borrowing needs. Even so, thresholds for those paying the highest rates of tax are today higher in real terms than when we took office. Further progress in reducing personal taxation depends on containing public expenditure and even then we shall need to assess the priorities we attach to action in this area as against, say, some reduction in the burdens on companies whether via taxation or via interest rates being lower than they would otherwise be.

The Institute's proposals regarding the taxation of Schedule D income of new businesses will be examined. As you know we have taken a number of measures to help the small firm sector. New businesses will perhaps benefit most from the overall improvement in the economic environment which our policies to reduce inflation are designed to achieve.

On the wider legal issues surrounding industrial relations, I agree that the balance of power has swung too far in favour of

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trade unions. We have already acted, through the 1980 Employment Act, to restrict the closed shop, to establish guidelines for picketing and to curb secondary action - an important first step in correcting that imbalance. We are currently considering the responses we have had - including the package recommended in your own submission - to January's Green Paper on trade union immunities, and will be announcing our ideas shortly.

Finally you suggest a new look at company law. As you know we have commissioned Professor Gower to put forward proposals for a new legislative framework of protection for investors in securities and other forms of property. He has been given wide terms of reference which will make possible a review of all Companies Act legislation, and it is hoped that a discussion paper will be circulated by around Christmas. Meanwhile we have no intention of introducing further Companies Acts during this Parliament, and we shall continue to join in EC harmonisation discussions to ensure that these do not prejudice the interests of our businessmen.

You wrote me a long letter, and I fear this is a long reply. But the matters we cover are vital to the future. I accept that your members - and others in our society, including in particular those who are unemployed - face problems as we seek to make the changes which are so necessary. And I share their disappointment that progress is not faster. But we intend to carry on with the measures to which we are committed, and which you support, towards, in your words, a better and freer future.

Yours sincerely
Roy Jenkins

Walter Goldsmith, Esq.