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Dear Michael

You wrote on 30 September saying that the Prime Minister would be grateful for my Secretary of State's views on the feasibility of protecting employers from the claims of employees whose money wages are reduced. I understand that Mr Tebbit had a word with the Prime Minister about this on 11 October, and I am writing to record his views on the matter.

The "contract" is permanent obligation to pay a money wage - even if all prices fall dramatically

It has been clearly established in the Courts that a unilateral reduction of money wages contractually due to an employee amounts to a repudiation of the contract by the employer. If the employee accepts the repudiation and leaves his job this is treated as dismissal and can lead to a claim that it was unfair. It is of course possible for the employer to agree with his employees a variation of the terms of the contract by reducing his wages. In any event, if an employer is unable to reach an agreement with his employees, it may not in the present circumstances of high unemployment always be the case that employees will treat this as a repudiatory breach and leave their jobs.

Jobs do not disappear. They are killed by high wages. But whether right or wrong it is done!

The Secretary of State does not see the redundancy legislation as a route for cutting money wages. Redundancy compensation under the Employment Protection (Consolidation) Act 1978 is due only where employees are dismissed because their jobs are disappearing. Employers sign an undertaking that this is the case when they claim rebates from the Redundancy Fund. It would not be right for them to sign such an undertaking when the job still exists and when it is their intention to take the same workers back as soon as possible - albeit on lower wages. I should point out in passing that employees made redundant receive 100% of the statutory payment from their employer who can recover 41% from the Redundancy Fund. The Fund itself is financed, not from general taxation, but exclusively from employers' and employees' national insurance contributions.

Taxes by any other name...





Your letter concludes by asking whether the necessary change would require legislation, and how this would be brought about. Legislation would certainly be required to enable employers to reduce money wages without giving rise to claims from employees that they had been unfairly dismissed. However, Mr Tebbit believes that any such legislation would be open to major objections. It would amount to giving employers power unilaterally to override a fundamental term of their employees' contracts of employment in circumstances which it would be very difficult to define. The best solution he considers is to encourage employers in such a situation to explain to their employees the need for a cut in their wages and the consequences of failure to accept it in order to bring about an agreement.

Yours sincerely

J B Shaw

J B SHAW  
Principal Private Secretary

