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(duplicate)

10 DOWNING STREET

From the Private Secretary

9 August 1984

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The Prime Minister has received the attached minute from Sir Keith Joseph commenting on a theme that he will be raising at the meeting on employment proposed for 13 September. Sir Keith comments particularly on a number of recent articles about the relationship between pay and unemployment and suggests that further work should be done on the arguments put forward in these articles. The Prime Minister has asked me to commission such work in time for the meeting on 13 September and I should be grateful if you could arrange for this to be done.

I am sending a copy of this letter and Sir Keith's minute to David Normington (Department of Employment).

Timothy Flesher

David Peretz, Esq.,
HM Treasury.

From: The Rt.Hon. Sir Keith Joseph, Bt., M.P.



CC HMT

8th August 1984.

The Rt.Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister.

PERSONAL & URGENT.

Dear Margaret,

Thank you for lunch today, and for the chance to discuss several issues. On one of them you bade me deliver my suggestion today, so that work might be initiated on it, if thought fit, while you are away.

I attach a minute.

Yours,

Keith

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8th August 1984.

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PRIME MINISTER.

At the meeting to which I have been called on September 13th I shall be proposing that, whatever else Government does, we should seek to increase understanding of the causes of unemployment - particularly the link between jobs and the price of labour.

You have often referred to this. Nigel Lawson, in his winding up speech last week, laid great, and I believe healthy, emphasis on it. But the message has not yet been widely hoisted in.

It so happens that very recently the argument on it has at last been joined - Sam Brittan, on July 19th, 23rd and 26th in Financial Times; Sarah Hogg reporting Nigel Lawson in the Times last week; and Hayek in the Times on August 7th have presented the case. David Basnett (Financial Times today) has rebutted it.

X In parallel the IEA has within the last fortnight published "Low Pay - or No Pay", which Chris Pond of the Low Pay Unit has sought to refute, though his views have been criticised in yesterday's Daily Telegraph by Professor Denison.

We have thus been presented by Mr. Basnett and Mr. Pond with presumably the best case that can be made against our analysis. May I suggest that prior to our meeting their arguments be analysed and that, if our views are validated and their arguments shown to be flawed, we should embark upon a systematic and sustained explanation of one of the main causes - and cures - of unemployment.

Our aim should be both to encourage sensible wage and productivity behaviour and to spread an understanding of the causes of unemployment.

There will be difficulties :

- (a) We shall be accused of wanting to lower pay, when in fact an acceptable alternative would be to lower wage costs by increased productivity.

- (b) We shall be told that a higher productivity actually decreases jobs, and will have to explain
 - (i) that this may indeed be a necessary stage on the way to more jobs,
and
 - (ii) that projects now aborted by expected pay demands may become profitable enough to be implemented.
- (c) We shall be told how low paid are British wage-earners compared to those in competitor countries - but of course we know this, and we know that it reflects low productivity.
- (d) We shall be told that some managements are not very clever and that the crucial skills of marketing are not as widespread as desirable. That we know too. Our message will be addressed to managements that give way to damaging pressures almost as much as to unions.
- (e) We shall be told that some industries are virtually free of trade union restrictions - and we are thankful for that.

I hope that some preparatory work on the lines suggested could be done for our meeting.

I am copying this to Nigel Lawson.

KJ.