



10 DOWNING STREET

THE PRIME MINISTER

16 October 1980

Dear Mr. Reuther;

Thank you for your letter of 24 September. I was sorry to learn of the difficulties your company is now experiencing.

I know that the current situation is tough for industry, but unless we stick to our current policies and concentrate on getting inflation down, there will be no sustained recovery. In the long-run, inflation itself is the major enemy of prosperity and our priority must therefore be the control of inflation - the high level of Minimum Lending Rate is playing a key role in bringing monetary growth under control. It would be quite wrong to give up hope now, just as inflation is falling and our policy is starting to show results in this field.

I was particularly struck by your reference to the loyalty and responsibility of your own workforce, itself a sign of good management. Sadly in the past this has not been true of many enterprises in the public and private sector with unfortunate cost increases generated by unjustified pay awards and inefficient working practices which have fed through the economy adding to the pressures facing even the best-run companies.

This has happened for far too long, but I hope you will be encouraged as I am by the many signs of increasing realism and responsibility among wage bargainers.

We for our part are determined in our efforts to keep the public sector in check, so that it does not pre-empt resources and thus we shall be able to create the money market situation - in which interest rates come down as soon as possible and so reduce the current burden on private industry.

/ Meanwhile, I hope

Meanwhile, I hope you will not ignore the substantial steps we have already taken to ensure that the general environment within which small firms operate is also improved. When the pace of economic activity begins to accelerate, small firms will be better placed to take full advantage of the new opportunities which will then occur. Our first budget made the largest ever tax reduction for those who succeed, as part of a major switch of emphasis in favour of improving incentives and reward. We continued that impetus by announcing in the last budget further measures of particular benefit to small firms. These include reductions in the levels of income, corporation and capital taxation, measures to stimulate the provision of small industrial units, and measures to improve the incentive and rewards for the private investor in small businesses.

The removal of unnecessary restraints to growth is another important aspect of our policy towards small firms. We have already therefore taken steps to increase flexibility in planning procedures, to reduce disclosure requirements for companies with an annual turnover of less than £1 million, and to reduce the burden of form-filling. There have also been significant changes in employment law which will remove a constraint and encourage smaller businesses when they consider whether or not to engage new staff.

We have never claimed that there are quick or easy solutions to our deep-rooted economic problems but I hope that you and your workforce will recognise that we remain committed to the promotion of a healthy environment which will assure the development of a successful small business sector as soon as our attack on inflation reaches the point at which interest rates fall.

Yours sincerely
Raymond Indictor