



The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

6th August 1981.

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I only bother you with this letter just before you go on holiday in case you should think that the contents justify some working up in preparation for your return.

My perception is that we have not yet effectively enough persuaded the country that the rise in unemployment is largely due to the level of unit labour costs and that the prospects for employment in the future depend mainly upon recovering competitiveness, particularly in these same unit labour costs.

My suggestion is that you should authorise an approach to Tim Bell - the best presenter known to me of a case - about the best way we should intensify our efforts. My hope is that you will give him free rein to propose what should be presented, by whom, by what methods, on what occasion and with what follow-up.

The subject lends itself to visual aids: possibly to an intellectual confrontation: possibly to trade union participation: on no part of this have I opinions worth having. But Tim Bell would.

Tim would require an intellectual background.

He would need to have the distinction drawn between the impact of the £ on the one hand, and the impact of rising unit labour costs over recent years, and particularly in 1980, on the other. You used some of the key figures very effectively yourself in the recent censure debate.

He would need to be careful not to exonerate management, which ranges from brilliant to poor: bad design, weak marketing, sloppy production control have been, and are, important factors - but the confidence and the scope of management, and the profits they need for expansion, have all been hammered over recent years by much trade union short-sightedness.

We would need to identify for him the remorseless rise of the wages share and the consequent fall of the profit share of company income - and the effect this has

had on labour costs, competitiveness and management scope, and therefore the effect on jobs.

(Please note that the raw statistics do not show profits being raided by labour costs in the way that we know has in fact happened: Department of Industry statisticians have however explained why it is still true that profits have been raided by earnings, in an answer prepared at my request to a question from Mickey Grylls).

He will need to be given our unit labour costs in comparison with those of our competitors.

It seems to me that we would want to stress that management defects need to be reduced as well as excessive unit labour costs, but we can surely explain that the defects of management cannot be cured overnight - marketing and design and development failings take time to correct - whereas unit labour cost excesses can be cured overnight, or can at least be prevented from getting overnight even worse.

We surely should not flinch from the fact that we stressed unemployment under Labour as one of our election themes. How could we be expected to have known that the £ would rise so sharply: that there would be another oil hike: and that, above all, there would be the job-annihilating pay increases of 1980. To add that massacre of jobs, on top of those already destroyed by the increase in unit labour costs of previous years, was the responsibility of the trade unions, who were warned by us - and who are now leading the complaints.

It is my hope that if Tim Bell were given the material he would be able to suggest how best to present it to secure interest, understanding and follow-up. Provided that we do not flinch from management's role, and our own part where relevant, we have an impeccable case.

In putting the argument for a new presentation to John Hoskyns there has, however, been revealed a difference of emphasis. He accepts the main thesis, but he argues that our stress should be on keeping future pay settlements moderate, while I would prefer to stress reduction in unit labour costs. He argues that reducing unit labour costs will involve higher productivity, which will increase unemployment over and above that which is already spontaneously emerging. I argue that only to the extent that, for instance, Merseyside or Glasgow proclaim themselves convincingly as areas of sustained low unit labour costs would employers be attracted to them. I note this disagreement for what it is worth: the two purposes of moderated settlements and lower unit labour costs are of course mutually consistent.

Lastly, I turn to an aspect which is right outside my detailed knowledge, but I get the impression that very few television interviewers and very few news presenters show any interest in, or understanding of, cause and effect in connection with unemployment. This has often been deplored by us, but surely we should try to do something about it. My necessarily - because I am so ignorant in this area - feeble suggestion is that we should seek the advice of those who do have interest and do have understanding, such as Robin Day - and there may be others - on how an increase in interest and understanding could be achieved among other interviewers and presenters. Efforts would have to be made one by one, and any gain in interest and understanding would be worth having. I know that Aims has given study to this subject, and might be able to give us some analysis.

I am sending this to you unpolished in order to reach you before you go off. I am copying to Geoffrey Howe, Norman Tebbit, Ian Gow and John Hoskyns, to each of whom I have to varying extents exposed the ideas for what they are worth.