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10 DOWNING STREET

From the Private Secretary

30 September 1982

Dear Barnaby,

The Prime Minister understands that the 1975 Employment Protection Act creates the presumption that a cut in money wages is equivalent to a new contract of employment, and that if it is refused by the employee these are prima facie grounds for an action for unfair dismissal.

The Prime Minister believes that, in view of the rapidly falling rate of inflation, it is increasingly important that firms should not be wholly inhibited from cutting money wages. Mrs. Thatcher has in mind wage reductions which have occurred in the United States (for example in Pan American Airways and in the Chrysler Corporation) and in Germany during the current recession.

She understands that the Redundancy Payments Act 1965 offers an indirect route for reducing money wages - under which an employee when declared redundant receives half the compensation costs from his employer and half from the state, and can, after a suitable interval, be re-employed at a lower rate. Clearly the disadvantage with this option is that the state has to be the main paymaster.

The Prime Minister would be grateful for your Secretary of State's views on this issue. Would the necessary change require legislation, and how would this be brought about?

Yours sincerely,

Michael Scholar

Barnaby Shaw, Esq.,
Department of Employment.

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