



10 DOWNING STREET

THE PRIME MINISTER

14 May, 1981

*Dear Gerry,*

Thank you very much for your letter of 27 April enclosing the attached correspondence from Dorian Williams.

I was very interested to have Mr. Williams' view about how our message is getting across. As you say, there are many well reported examples of occasions on which I and other Ministers have made similar observations about pay negotiations to those outlined by Mr. Williams. The Government has in fact made every effort to bring home to the public the realities of economic life. By demanding excessive pay increases people can price themselves and others out of work and moderation in pay settlements is essential if jobs are to be preserved and real improvements in living standards achieved. There are signs that this message is being understood now that pay settlements have so far been well below those recorded during the last pay round. CBI figures for February show that two out of three settlements in manufacturing in recent months were in single figures indicating an increasingly realistic approach to wage settlements. For the public services, the Government has set tight but realistic cash limits and a number of important settlements have been reached at about the 7% level. In the public trading sector similar financial disciplines exist through external financing limits. Obviously much remains to be done and the Government will continue to urge everyone to accept economic reality.

A good deal of the responsibility for getting the message across must rest with management. Often it is at the level of the enterprise that the direct link between excessive pay rises and fewer jobs can be posed most starkly.

/On the wider

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On the wider question of industrial relations reform, it has always been our approach to proceed on the basis of the widest public support. There is no doubt that the measures in the Employment Act attracted wide support when they first appeared in our Election Manifesto and have retained that support throughout the passage of the Bill and subsequently.

We are, as you know, currently consulting about further changes in the law on the basis of the Green Paper on trade union immunities. Given the complexity of this subject, I think a Green Paper, which sets out all the arguments and options, is a better way of assessing public support for further changes than a referendum. Furthermore it is not just a question of assessing public support generally, although, of course, that is very important. If we are to find practical solutions to our industrial problems we need to take the views of those in industry who will be most affected. Again I think that something like a Green Paper is the best way of doing this.

Please thank Dorian Williams for writing and for his expressions of support.

Yours ever

Raymond

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