



10 DOWNING STREET

3 February 1982

THE PRIME MINISTER

*Dear Mr. Goldsmith,*

Thank you for your letter of 6 January enclosing a copy of your speech outlining proposals for a "workers' charter".

I found many of the proposals interesting and imaginative. I certainly recognise the importance of the two main themes developed in the speech - the need to provide ways of linking individual employees more closely with the private enterprise system and the relationship between pay and economic performance. Could I offer some comments on both themes and on some of the particular proposals you have in mind?

I share your view that the wider ownership of shares and property is a valuable means of achieving a closer identification of employees' interests with our free enterprise system. Promoting the wider ownership of assets has been a principal strand of Government policies, and we have already taken some important steps - the 1980 Finance Act provisions to encourage employee share ownership schemes and the increased sale of council houses are major examples. We will, of course, continue to examine the possibilities of further action. But, as my comments on some of your particular ideas show, neither the progress made so far, nor the difficulties of going further, should be underestimated.

I was particularly interested to see the suggestions for income and capital tax changes in your speech. I believe that you put these forward at the meeting which you had with Geoffrey Howe and Arthur Cockfield before Christmas when the Institute's Budget representations were discussed. I know too that you have had separate talks with

/ Nicholas Ridley

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Nicholas Ridley and with Inland Revenue officials, about your idea for a new special tax exemption for people moving into self-employment, and I believe you are reflecting further on it. We shall certainly look very carefully at all your ideas. But, as I am sure you understand, I cannot anticipate the Budget.

I also appreciate the importance you attach to tax changes that will encourage profit-sharing and employee shareholding. The numbers participating in such schemes have grown substantially since the 1980 legislation; an independent study estimated recently that companies employing a total of over 1.5 million people now operate employee share schemes. We will, however, certainly look further at your proposals to encourage the expansion of such schemes.

On the nationalised industries, we are as you know concerned to make rapid progress with our policy of reducing the size of the public sector. That being so, I entirely agree with your stress on the need for imaginative thinking on the many opportunities in this area. The role your Institute has played in examining and putting forward new ideas has been particularly welcome. We have in fact looked at one or two schemes on the lines of your proposed free transfer to taxpayers of marketable shares in the assets of certain nationalised industries, but concluded that these were impracticable.

More generally, there are real difficulties in any attempt to spread formal ownership of assets remaining within the control of the public sector, and which will continue to be seen as guaranteed by the Government. You are quite right to emphasise the benefits of wider share ownership; but in the nationalised industries the best way by far to achieve this is through full privatisation. This ensures that responsibility for the assets - as well as ownership - passes to the private sector purchasers. In addition, in each of the major public sector sales so far, we have taken steps to encourage the purchase by employees of shares in the industry concerned. These schemes have all been most successful, with a high proportion of employees taking up their rights under preferential arrangements.

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Turning now to your suggestions on Civil Service efficiency and incentives, one of the objectives of the new Management and Personnel Office is to find ways of enabling staff to give of their best, as part of the central aim of promoting efficiency across the Civil Service. Our White Paper "Efficiency in the Civil Service" (July 1981) shows that much has been done. But further concentration on these issues will, I am sure, create a more positive working environment for line managers in the Service.

I agree that staff suggestion schemes can be important motivational instruments in an organisation. The Civil Service has had a variety of such schemes for many years, and has just revised them to stay in line with outside practice. The Government also continues to seek ways of improving incentives in the Civil Service. We have, as you know, appointed an independent Inquiry, chaired by Sir John Megaw, to make recommendations on the principles and system for determining pay in the non-industrial Civil Service. Among the issues which we have asked the Megaw Inquiry to look into are the scope for relating pay more closely to performance, whether for individual staff through merit pay schemes or more generally through some form of productivity pay.

I wholly agree with you that we need a better qualified workforce. In education, I believe the right course is to encourage schools to offer a broad curriculum, with scope for development of those personal qualities to which employers rightly attach great importance, and to make as much of the curriculum as possible interesting, relevant and practical. The Government remains committed to the extension of parental choice and involvement in education. Keith Joseph is now seeking to stimulate thinking about education vouchers, and I am sure he will be happy to discuss this and the more detailed points on education you make when you meet later this month.

I agree with you that our present training arrangements leave much to be desired, especially in comparison with our major competitors. We recognised in the White Paper on a New Training Initiative that the time had come for the Government to give a lead in securing the necessary

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reforms. The White Paper sets out a framework within which employers, employees, unions, educationists and the Government can identify the problems more clearly and determine who is primarily responsible for tackling them.

As you say in your speech, the weakness in the current system starts with our provision for young people. The young unemployed clearly deserve the highest priority, but we have to ensure that they are offered more than merely cosmetic opportunities. We are therefore already building towards the new Youth Training Scheme which, from September 1983, will guarantee all 16 year-old school leavers who cannot find a job a year's genuine foundation training. But there is also a need for better training for young people once they have started work. I see this as primarily the responsibility of employers, so I am loth to agree that legislative encouragement is necessary, as I think you suggested in your speech. Instead, I prefer an approach based on what might be called "assisted voluntarism". As part of this, the Government is expanding the scheme of grants to employers who provide integrated vocational training and further education for their young employees.

Finally, I should like to comment on the other main theme of your letter and speech - pay. I certainly agree that achievement needs to be rewarded. But I think that there is a risk of misunderstanding if the case for such rewards is represented as being in conflict with the case for pay restraint. Within the monetary framework which the Government has set, our achievements in terms of increased output depend not least on realistic decisions on pay by both sides of industry and in both the public and private sectors. To appear to question the importance of pay restraint and urge rapid movement to higher pay rewards will only impair output and employment prospects if, as I fear, it stimulates pressure for pay increases. Care is also needed in suggesting that improved profits should feed into pay, because the need to rebuild low profit levels can easily be overlooked. As you know, the real pre-tax rate of return in manufacturing fell from 13 per cent in 1960 to only 2 per cent in 1980. Better returns are needed to increase both the incentive to invest and the means available to finance it. That, ultimately, is the way to an economy which can provide high rewards, whether through pay or profits.

/ Thank you

Thank you for setting out your views so clearly and for the imaginative work which underlies the "Workers' Charter". You have already been in touch with some of the Ministers concerned to follow up particular proposals. I am sure that both you and my colleagues will find this helpful in developing ideas in these important areas.

Very good with,

Yours sincerely

Raymond Storer

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Walter Goldsmith, Esq.