



10 DOWNING STREET

THE PRIME MINISTER

9 March 1981

*Dear Anthony,*

Thank you very much for your letter of 23 February.

The second year is certainly tough! Most of the comments we have had from industry have been directed to the exchange rate and lack of orders - the two may of course be connected. I think that the real cause has been the large wage increases unwarranted by performance, but that is past and we can't reverse it now.

Insofar as Government policies are to blame - the level of public spending as a proportion of GNP is still too high and it is not likely to fall during a recession. The worst aspect has been enormous increases in public sector pay which for central and local government is now 50 per cent more than two years ago. Alas we were committed to Clegg until we were able to abolish his Commission.

I am very much aware of the car industry point. Sometimes strong chairmen pose problems every bit as difficult as those caused by weaker ones. We shall have to break up British Leyland or sell it whole. I believe it can only be the former. Michael Edwardes hankers after profitability (unattainable!) and then the latter.

*Yours sincerely*

*Rogers*

Sir Antony Part, GCB MBE

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