



10 DOWNING STREET

THE PRIME MINISTER

1 December, 1980.

Dear Sir William,

I have now had an opportunity to look further into the points you made in your letter of 28 October and in your "Notes on Industrial Briefing".

Following your comments about compensation under the Aircraft and Shipbuilding Industries Act 1977, I understand that you wrote to Keith Joseph on 5 November with particular reference to the position under the European Convention on Human Rights. We both recognise the strength of your feelings on the whole compensation issue. I understand that you and others discussed it with Adam Butler on 26 November, and he is looking forward to hearing whether it will be possible to reach agreement on compensation for Scott Lithgow Ltd.

As regards your "Notes on Industrial Briefing", I hope that you are right on your first point. Certainly the signs are encouraging. On your second point, I believe that the widespread lack of competitiveness within UK industry and high inflation have been major contributors to the collapse in demand. Your third point has been raised by others and we are looking into it.

I agree with much of what you say in points 4 to 7. But I hope you can agree that these problems are now being tackled. We are putting maximum pressure on the local authorities to keep down the cost of their services through the 6% pay assumption in next year's rate support grant, and we have just announced

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a specific programme of cuts in civil service staff.

On your eighth point, I agree with you that our best companies are as good as any in the world. We are doing everything we can to encourage wealth-creating industry. I am constantly referring to this in my speeches. But I think it is also right for us to draw attention to industries where our performance has lagged behind. British industry was falling steadily behind in all aspects of competitiveness for years before the pound started to rise. Manufacturing productivity is 30% below that in France, and France itself is well below Japan. I agree with your point 10(b) - that industry must learn to live with the strong pound.

Many of your other points are dealt with in more detail in the separate memorandum which you sent on 31 October, and Geoffrey Howe or I will be sending you our comments on that shortly. In the meantime, let me say how grateful I am to you for taking the trouble to set out your analysis and suggestions so clearly.

Warm good wishes.

Yours sincerely,

(SGD) MT

Sir William Lithgow