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PART 2

Confidential Filing

Meetings with the CBI. Correspondence on the Government's Economic Strategy.

INDUSTRIAL POLICY

Pt 1: May 1979

Pt 2 ~~May~~ November 1980

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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| ~~12.11.80~~ | | ~~12.5.81~~ | | | | | |
| ~~13.11.80,~~ | | ~~14.5.81~~ | | | | | |
| ~~21.11.80~~ | | ~~16.6.81~~ | | | | | |
| ~~9.12.80~~ | | ~~29.6.81~~ | | | | | |
| ~~18.12.80~~ | | ~~7.6.81~~ | | | | | |
| ~~12.1.81~~ | | 7.7.81 | | | | | |
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| ~~15.4.81~~ | | | | | | | |
| ~~24.4.81~~ | | | | | | | |
| ~~6.5.81~~ | | | | | | | |

PREM 19/490

PART 2 ends:-

WR to Linda Turner 7/7/81

PART 3 begins:-

A. Watten to CAW

# Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. "The Will to Win"; CBI Publications, March 1981

2. Economic Situation Report, End February 1981; CBI Publications

3. Economic Situation Report, End March 1981; CBI Publications

4. Economic Situation Report, End June 1981; CBI Publications

Signed GWayland Date 3 May 2011

**PREM Records Team**

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PC

10 DOWNING STREET

*From the Private Secretary*

7 July 1981

In Michael Alexander's absence, I am writing to thank you for your letter of 6 July, and for sending us a copy of the final report of the Pre-Summit Conference in Canada. I am sure the Prime Minister will be interested to see this.

WR

Miss Linda Turner.

Confederation of British Industry
Centre Point
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Telex 21332
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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

CBI CONFEDERATION OF BRITISH INDUSTRY

6th July 1981

Dear Mr. Alexander,

The Director-General, Sir Terence Beckett, wrote to the Prime Minister on 25th June enclosing the draft report of the Pre-Summit Conference in Canada and said that he would forward the final report in due course.

In Sir Terence's absence on holiday, I have pleasure in enclosing a copy of the final report.

Yours sincerely,

Linda Turner

(Personal Assistant to
Sir Terence Beckett)

M. O'D. B. Alexander Esq.,
Private Secretary to the
Prime Minister (Overseas Affairs),
10 Downing Street,
S.W. 1.

Enc.

SR/ "In Michael Alexander's absence, I am writing to thank you for your letter of 6 July, and for sending us a copy of the final report of the Pre-Summit Conference in Canada. I am sure the Prime Minister will be interested to see this."

WR
7/7

The Institute/L'Institut
for Research on Public Policy/ de recherches politiques

# REPORT ON THE

# PRE-SUMMIT CONFERENCE

# OF NON-GOVERNMENTAL EXPERTS

Held at the Chateau Montebello

Montebello, Quebec, Canada

June 19 - 21, 1981

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## REPORT ON THE PRE-SUMMIT CONFERENCE

## OF NON-GOVERNMENTAL EXPERTS

At the invitation of the Institute for Research on Public Policy, three or four private citizens from each of the seven Summit countries met on June 19, 20 and 21, 1981 in Montebello, Quebec to discuss issues that could arise at the Ottawa Summit in July. They were joined in their discussions the first evening by the Prime Minister of Canada, the Right Honourable Pierre Elliott Trudeau.

The Ottawa Summit takes place at a time of great economic and political difficulty. The economic problem arises from volatile and historically high interest rates, as well as increasing pressures for trade protectionism, which threaten to impair the orderly growth of the western economies. The political problem stems from continued Soviet occupation of Afghanistan, and the strains in Poland, which create new dangers of confrontation. To these, the addition of a number of other detailed issues outlined below assures an agenda that will test the capacity of the seven countries to provide coherent leadership for the western world.

Participants agreed that the Summit countries faced differences in approach and policy unparallelled in recent years. Several stressed the overall linkage amongst the various issues. Others sensed a risk that the issues would not be kept separate and could instead come together in an explosive mixture. Participants also thought that the Summit leaders, meeting a month from now, should discuss candidly their differing views and reactions to issues but could focus most usefully on those elements on which there might be some agreement and commonality of approach.

### I. The International Economic Situation and Prospects

The topic on which most time was spent was the international macro-economic situation and policies. While it was felt that economic growth during the current decade would not reach rates attained in the 1950s and 1960s, it was the general view that economic growth in Summit countries had to be sufficient to ensure the attainment of their principal domestic and international objectives. As well as making adjustment to the changing international economic environment easier, higher rates of growth would make it more feasible for the European countries to assume greater defence burdens and for the developing countries to enjoy more opportunities for economic advancement.

Participants agreed that Summit leaders would be best advised to review and discuss medium-to-longer term problems. The major problems of policy were agreed by all to be those of economic growth, inflation, savings and investment, trade, and reduced unemployment. In order to achieve productivity gains and increases in the standard of living over time, there was a general view that more resources in the western economies would have to go into investment and that each country would have to overcome inflation in their respective economies if there were to be sustainable, high rates of economic growth.

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The primary policy instrument chosen to overcome inflation had been restrictive monetary and fiscal policies, and this was judged by most to be broadly appropriate and to be part of any program. Some participants argued that reliance latterly by the United States on the monetary policy instrument had led, however, to high and volatile interest rates, as well as depreciating foreign exchange values expressed in dollars, and had resulted in undesirable ramifications internationally both for other industrialized countries and for the developing world. Others argued, however, that the primary cause of recent interest rate and foreign exchange market behaviour was the fact of inflation itself. It was further pointed out that earlier Summits had urged the United States, the largest economic power, to undertake a concerted policy to control inflation in the interests of the entire world economy. While one participant suggested that one way of de-coupling the anti-inflationary effect of high interest rates in the United States from their disruptive impact on other countries would be to suspend U.S. tax deductibility for interest payments, leaving the net cost after tax for most unchanged, it was generally agreed that more normal patterns of interest and exchange rates would be restored once inflation had been brought under control.

It was not clear what an appropriate macro-economic policy mix should be in the Summit countries. Some participants suggested that a somewhat more restrictive fiscal policy seemed to be desirable while others argued that more innovative structural policies involving the formulation of a new social consensus, and the adjustment of present indexation systems to reduce the impact of price changes originating abroad, were called for.

All participants looked to a return to a more stable exchange rate environment, once inflation had been contained, which would impose some discipline on individual national economic policies and which would prevent abrupt shifts in competitive positions and ultimately in trade flows. Short of, or in addition to, a return to more stable rates, all participants strongly supported the view that earlier consultation on the part of Summit countries was highly necessary and desirable when it was clear that a certain policy action would cause a significant impact on its economic partners.

Although the price of oil expressed in dollars appears to be stabilizing recently, and a current surplus of that key natural resource has emerged, participants urged their leaders not to be complacent about the energy situation. Oil would remain an important element for many years to come in underpinning the economic and political well-being of the western industrial democracies, as well as of the oil-importing developing countries. While a crisis concerning energy did not appear to face leaders at present, it was felt that any one precipitous change affecting supply could drastically change for the worse the favourable contingent and structural factors prevailing currently. Contingency planning in this context remained very important in order both to moderate price volatility and to assure some sharing of supply vulnerabilities.

Many supply displacement programs, involving the broadening of sources of energy supply and the conservation of energy use, were already well underway in Summit countries. Participants felt that these initiatives should continue as should national, regional and international research and development efforts concerning alternative technology. Such technology is very important to the long-term security of the west and to the longer-term survival of the developing world.

Participants agreed that notwithstanding declared support for the open trade and payments system, specific actions by certain Summit countries in the recent past were a source of genuine concern. The general framework for international trade was being undermined by ad hoc trade actions to protect specific sectors. Those economies still remaining open could become vulnerable as commodity flows shifted.

While all participants agreed on the existence of the seriousness of the international trade problem, there was some difference as to whether the rules of GATT are now adequate and whether review of the adequacy of existing trade rules should take place within the GATT or more broadly. All agreed that adjustments to changing competitive advantages took time and might cause painful effects for the factors of production involved. The management of this structural adjustment, if recourse to increased protectionism is not to become more frequent, should be a concern of all trading partners.

## II. East-West Relations

Participants suggested that the overall western strategy with respect to the U.S.S.R. and its allies should be "two-tracked". This approach would imply both the maintenance and reinforcement of the security posture of the West and also renewed effort by the seven countries to involve the U.S.S.R. and its allies in discussions, consultations, and negotiations over a range of issues including economic cooperation.

Concerning the first aspect of the two-pronged approach, participants stressed the need to maintain and enforce the security posture of the West. They agreed with the NATO decision of December 1979 on modernizing the Theatre Nuclear Force. Several expressed the hope that arms control negotiations, called for in the 1979 NATO decision, would be resumed as soon as possible.

With respect to the second aspect of the two-pronged approach, interaction with the Eastern bloc over a broad range of issues, it appeared that there are important differences in perceptions and priorities amongst the Summit countries. While most participants agreed that the tone of the dealings with the U.S.S.R. and its allies should be low key, clear differences of view existed concerning the advisability and extent of East-West trade and indebtedness, the question of energy dependence, and the transfer of technology, particularly with respect to Siberian oil development. Most would favour, however, western support for energy development within the U.S.S.R. in order to relieve potential world shortages and to avoid Soviet pressure on sources outside the U.S.S.R.

Since these are issues which have important economic and political consequences and could create in some cases differences between the Summit countries, it was felt that they would have to be discussed on a case-by-case basis. Government officials and the private sector would therefore benefit from their leaders' views on these questions. Participants strongly agreed, moreover,

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that both these specific issues and the overall strategy of dealing with the Eastern bloc would take on a quite different complexion should the present situation in Poland change dramatically.

III. North-South Relations

Relations between the developed and developing world were discussed in considerable detail, with no overall consensus emerging. One general view expressed was that the objective of the Ottawa Summit could be to reconfirm the political will of the Summit countries concerning the economic development of the less-developed. The other view that evolved during discussion was that no generalized government-to-government commitment need or should be made at this time, that the West would be doing well to maintain present levels of official aid. The access of the developing countries to western trade and technology in this view might well be expanded through the private sector. It was agreed by all, nevertheless, that reality concerning the issues involved in the North-South dialogue had to be faced and that the serious differences of political outlook and priorities among the Summit countries had to be recognized.

Themes stressed by the participants were several. Problems of financing, both in terms of recycling oil money and of maintaining a viable balance of payments, were addressed. It was felt by most that no new international financial institutions were necessary. Several others, however, thought that now was a propitious time for reform of existing institutions, such as the IMF, the IBRD, and related bodies. New means by which these institutions could guarantee the operations of the private banks, promote long-term lending by the oil-surplus countries, or facilitate the stabilization of export earnings and of prices for the primary producers in the developing world might well be added to better assist the structural adaptation of the developing countries.

The continuing need for energy research and the development of new sources of technologies was also referred to. Most agreed that if the opportunity were not seized now to expand and disseminate the production of energy as much and as quickly as possible outside OPEC, the prospects for world economic growth would be seriously impaired.

All agreed with the emphasis being placed in new development strategies on the importance of human capital. Training programs, emphasizing management, language and other skills, located either on-the-job or at educational institutions both in developing countries and the western world, were part of this approach as was the use in small and medium size enterprises in the South of retired experts from the North. Improved health facilities and population control techniques were also critical to improved prospects for the developing world.

On the other hand, it was felt that the trade in armaments, in which certain developing countries had a disproportionately large role, was an increasingly negative aspect of the north-south relationship. Not only were very scarce resources being used up by those countries participating actively in this trade, but also public opinion in the western world could come to doubt the development goals and priorities of the developing countries themselves in these circumstances.

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A very open issue, and one requiring a great deal of thought on the part of both developed and developing countries, was that of the appropriate role of private western investment. Differing treatment and confusing signals often surrounded the principal mechanism of such investment, the multinational enterprise, yet it was clear to several participants that this institution was a very efficient means of transferring and upgrading technology and of employing and improving the quality of local labour. Others stressed, however, that this form of investment did not go generally to the poorest countries or into less profitable areas such as agriculture, infrastructure, health, and education.

Finally, several participants stressed the fact that the South was not one bloc but several. Thus generalized policies involving the South were not always appropriate. The General System of Preferences, for example, appear to benefit primarily the more advanced developing countries so that other means of ensuring the access of the poor states to markets should be found.

## IV. Inter-Western Relations

In assessing the results of the series of seven Summit meetings to date, participants agreed that the principal achievement appeared to have been in some coordination of macro-economic policies and in the provision of a forum for economic crisis management. Similar success had been attained on energy policies. On trade, it had not been possible to go beyond generalities but this had to be viewed against the background of the on-going multilateral trade negotiations at the time and the fact that the Summits had succeeded in encouraging governments to maintain relatively liberal trade policies through the worst recession of the post-war years. The process had helped to provide political solidarity for the West and had assisted governments in obtaining the support of their electorates for unpopular economic policies by demonstrating the common approach of the Summit countries. The crisis management role was being enhanced by the additional political dimension being given to the discussions.

Nevertheless, it was also the view of many of the participants that the Summits risked becoming a negotiating process rather than a consultative one. This was considered a negative aspect, as was the growing tendency towards the bureaucratization of the process. Furthermore, while it was accepted that the increasing political dimension of the discussions was important, it was pointed out that the Summit countries are less of a coherent group for discussion of this sort than they are for economic issues where together they account for over 80 percent of the western world's economic activity.

In considering the future of the Summit process, participants placed considerable emphasis on the need to maintain the Summit meeting as the supreme consultative body and stressed that it should be reserved for the discussion of topics that only Heads of Government and of State can undertake. These would relate to fundamental medium and longer term policy orientations and possible crisis management and might well benefit from meetings of slightly longer duration. Many thus viewed the Summits as an opportunity for their leaders to meet and discuss issues of importance in a free and informal way thereby fostering personal relationships and understanding amongst themselves.

However, several participants also pointed out certain risks for wider international cooperation in the process of summitry. Too much reliance on the Summits for Western coordination carried with it the serious possibility of weakening the established international institutions and reducing their credibility as well as alienating those western countries not part of the process. These considerations would have to be weighed in any discussion of the future of the Summit process. Participants viewed it as important that consultations with non-participating countries and the international institutions should be improved.

Note: While all participants took part in the discussions, Mr. Samuel Brittan did not feel that he could subscribe to the Report.

Ottawa
July 3, 1981

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10 DOWNING STREET

THE PRIME MINISTER

29 June 1981

Dear Sir Terence

Thank you so much for your letter of 25 June. I have read the enclosure with interest.

I am very grateful to have this record of your meeting.

Yours sincerely,

Margaret Thatcher

Sir Terence Beckett CBE

LPO

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From
Sir Terence Beckett CBE
Director-General

CBI
CONFEDERATION OF BRITISH INDUSTRY

<u>By hand</u>

25th June 1981

Dear Prime Minister,

With Sam Brittan of the Financial Times and David Watt of the Policy Studies Institute, I attended last weekend the Pre-Summit Conference of Non-governmental Experts at Montebello in Canada.

The draft report is attached for your information and I will forward a final copy when this is available. I also attach of list of the participants.

I hope you will find this of interest.

Yours sincerely,

Terry Beckett.

The Rt. Hon. Margaret Thatcher MP,
10 Downing Street,
S.W. 1.

The Institute/L'Institut
for Research on Public Policy/ de recherches politiques

Draft

**REPORT ON THE**

**PRE-SUMMIT CONFERENCE**

**OF NON-GOVERNMENTAL EXPERTS**

**Held at the Chateau Montebello**

**Montebello, Quebec, Canada**

**June 19 - 21, 1981**

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Participants agreed that the Summit countries faced differences in approach and policy unparallelled in recent years. Several stressed the overall linkage amongst the various issues. Others sensed a risk that the issues would not be kept separate and could instead come together in an explosive mixture. Participants also thought that the Summit leaders, meeting a month from now, should discuss candidly their differing views and reactions to issues but could focus most usefully on those elements on which there might be some agreement and commonality of approach.

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Participants agreed that Summit leaders would be best advised to review and discuss medium-to-longer term problems. The major objectives of policy were agreed by all to be those of economic growth, inflation, savings and investment, trade, and reduced unemployment. In order to achieve productivity gains and increases in the standard of living over time, there was a general view that more resources in the western economies would have to go into investment and that each country would have to overcome inflation in their respective economies if there were to be sustainable, high rates of economic growth.

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It was not clear what an appropriate macro-economic policy mix should be in the Summit countries. Some participants suggested that a somewhat more restrictive fiscal policy seemed to be desirable while others argued that more innovative structural policies involving the formulation of a new social consensus, and the adjustment of indexation to better reflect the exigencies of an open economy were called for.

All participants looked to a return to a more stable exchange rate environment, once inflation had been contained, which would impose some discipline on individual national economic policies and which would prevent abrupt shifts in competitive positions and ultimately in trade flows. Short of, or in addition to, a return to more stable rates, all participants strongly supported the view that earlier consultation on the part of Summit countries was highly necessary and desirable when it was clear that a certain policy action would cause a significant impact on its economic partners.

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Many supply displacement programs, involving the broadening of sources of energy supply and the conservation of energy use, were already well underway in Summit countries. Participants felt that these initiatives should continue as should national, regional and international research and development efforts concerning alternative technology. Such technology is very important to the long-term security of the west and to the longer-term survival of the developing world.

Participants agreed that notwithstanding declared support for the open trade and payments system, specific actions by certain Summit countries in the recent past were a source of genuine concern. The general framework for international trade was being undermined by ad hoc trade actions to protect specific sectors. Those remaining relatively open could become vulnerable as commodity flows shifted.

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II. East-West Relations

Participants suggested that the overall western strategy with respect to the U.S.S.R. and its allies should be "two-tracked". This approach would imply both the maintenance and reinforcement of the security posture of the West and also a continuing effort to coordinate action by the seven individual countries to involve the U.S.S.R. and its allies in discussions, consultations, and negotiations over a range of issues including economic cooperation.

Concerning the first aspect of the two-pronged approach, participants stressed the need to maintain and enforce the security posture of the West. They agreed with the NATO decision of December 1979 on modernizing the Theatre Nuclear Force. Several expressed the hope that arms control negotiations, called for in the 1979 NATO decision, would be resumed as soon as possible.

With respect to the second aspect of the two-pronged approach, interaction with the Eastern bloc over a broad range of issues, it appeared that there are important differences in perceptions and priorities amongst the Summit countries. While most participants agreed that the tone of the dealings with the U.S.S.R. and its allies should be low key, clear differences of view existed concerning the advisability and extent of East-West trade and indebtedness, the question of energy dependence, and the transfer of technology, particularly with respect to Siberian oil development.

Since these are issues which have important economic and political consequences and could create in some cases differences between the Summit countries, it was felt that they would have to be discussed on a case-by-case basis. Government officials and the private sector would therefore benefit from their leaders' views on these questions. Participants strongly agreed, moreover, that both these specific issues and the overall strategy of dealing with the Eastern bloc would take on a quite different complexion should the present situation in Poland change dramatically.

III. North-South Relations

Relations between the developed and developing world were discussed in considerable detail, with no overall consensus emerging. One general view expressed was that the objective of the Ottawa Summit could be to reconfirm the political will of the Summit countries concerning the economic development of the less-developed. The other view that evolved during discussion was that no

.../4

generalized government-to-government commitment need or should be made at this time, that the West would be doing well to maintain present levels of official aid. The access of the developing countries to western trade and technology in this view might well be expanded through the private sector. It was agreed by all, nevertheless, that reality concerning the issues involved in the North-South dialogue had to be faced and that the serious differences of political outlook and priorities among the Summit countries had to be recognized.

Themes stressed by the participants were several. Problems of financing, both in terms of recycling oil money and of maintaining a viable balance of payments, were addressed. It was felt by most that no new international financial institutions were necessary. Several others, however, thought that now was a propitious time for reform of existing institutions, possibly adding to them or finding new means by which they could guarantee the operations of the private banks or facilitate the stabilization of export earnings and of prices for the primary producers in the developing world.

The continuing need for energy research and the development of new sources of technologies was also referred to. Most agreed that if the opportunity were not seized now to expand and disseminate the production of energy as much and as quickly as possible outside OPEC, the prospects for world economic growth would be seriously impaired.

All agreed with the emphasis being placed in new development strategies on the importance of human capital. Training programs, emphasizing management, language and other skills, located either on-the-job or at educational institutions both in developing countries and the western world, were part of this approach as was the use in small and medium size enterprises in the South of retired experts from the North. Improved health facilities and population control techniques were also critical to improved prospects for the developing world.

On the other hand, it was felt that the trade in armaments, in which certain developing countries had a disproportionately large role, was an increasingly negative aspect of the north-south relationship. Not only were very scarce resources being used up by those countries participating actively in this trade, but also public opinion in the western world could come to doubt the development goals and priorities of the developing countries themselves in these circumstances.

A very open issue, and one requiring a great deal of thought on the part of both developed and developing countries, was that of the appropriate role of private western investment. Differing treatment and confusing signals often surrounded the principal mechanism of such investment, the multinational enterprise, yet it was clear to several participants that this institution was a very efficient means of transferring and upgrading technology and of employing and improving the quality of local labour. Others stressed, however, that this form of investment did not go generally to the poorest countries or into less profitable areas such as agriculture, infrastructure, health, and education.

Finally, several participants stressed the fact that the South was not one bloc but several. Thus generalized policies involving the South, such as the General System of Preferences, were not always appropriate.

.../5

## IV. Inter-Western Relations

In assessing the results of the series of seven Summit meetings to date, participants agreed that the principal achievement appeared to have been in some coordination of macro-economic policies and in the provision of a forum for economic crisis management. Similar success had been attained on energy policies. On trade, it had not been possible to go beyond generalities but this had to be viewed against the background of the on-going multinational trade negotiations at the time. The process had helped to provide political solidarity for the West and had assisted governments in obtaining the support of their electorates by demonstrating the common approach of the Summit countries. The crisis management role was being enhanced by the additional political dimension being given to the discussions.

Nevertheless, it was also the view of many of the participants that the Summits risked becoming a negotiating process rather than a consultative one. This was considered a negative aspect, as was the growing tendency towards the bureaucratization of the process. Furthermore, while it was accepted that the increasing political dimension of the discussions was important, it was pointed out that the Summit countries are less of a coherent group for discussion of this sort than they are for economic issues.

In considering the future of the Summit process, participants placed considerable emphasis on the need to maintain the Summit meeting as the supreme consultative body and stressed that it should be reserved for the discussion of topics that only Heads of Government and of State can undertake. These would relate to fundamental medium and longer term policy orientations and possible crisis management and might well benefit from meetings of slightly longer duration. Many thus viewed the Summits as an opportunity for their leaders to meet and discuss issues of importance in a free and informal way thereby fostering personal relationships and understanding amongst themselves.

However, several participants also pointed out certain risks for wider international cooperation in the process of summitry. Too much reliance on the Summits for Western coordination carried with it the serious possibility of weakening the established international institutions and reducing their credibility as well as alienating those western countries not part of the process. These considerations would have to be weighed in any discussion of the future of the Summit process. Participants viewed it as important that consultations with non-participating countries and the international institutions should be improved.

Ottawa
June 23, 1981

PARTICIPANTS - PRE-SUMMIT CONFERENCE - JUNE 19-21, 1981

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| | Mr. Olivier Lecerf<br>President and Director-General<br>Lafarge Coppée<br>28 rue Emile-Menier<br>Paris, France 75116 | 01-502-1110 |
| | Mr. Thierry de Montbrial<br>Director<br>Institut français des relations<br>internationales<br>6, rue Ferrus<br>Paris, France 75014 | 01-580-9108 |
| | Prof. Pierre Uri<br>Advisor, l'institut Atlantique<br>1 rue President Wilson<br>Paris, France 75008 | 01-727-5708 |
| Japan | Mr. Hideo Kitahara<br>c/o Seibu Department Stores Ltd.<br>3-1-1 Higashi-Ikebu Kuro<br>Toshima-Ku<br>Tokyo, Japan<br>170 | 03-985-0133 |
| | Mr. Takashi Hosomi<br>President of the Overseas Economic<br>Cooperation Fund<br>Takebasi Godo Building<br>1-4-1 Otemachi, Chiyoda-Ku<br>Tokyo, Japan<br>100 | 03-215-2991 |
| | Mr. Kiichi Saeki<br>Chairman, Nomura Research Institute<br>Tokyo Office<br>1-11-1 Nihonbashi<br>Chuo-Ku<br>Tokyo, Japan | Kamakura<br>0467-43.27.11 |

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| COUNTRY | NAME AND ADDRESS | PHONE NUMBER |
|---|---|---|
| Japan | Mr. Hisashi Owada<br>Visiting Professor of<br>International Law<br>Harvard University<br>Pound Hall 426<br>Cambridge, Mass. 02138<br>U.S.A. | (617) 495-4629 |
| Italy | Professor Cesare Merlini<br>President<br>Institute of International Affairs<br>88, Vialo Mazzini<br>00195 Rome, Italy | (06) 315-892 |
| | Dr. Umberto Colombo<br>Presidente<br>Comitato Nazionale Energia Nucleare<br>Viale Regina Margherita 125<br>Rome, Italy | (06) 851-007 |
| | Professor Mario Monti<br>Milan University Bocconi<br>Consultant, Banca Commercialle Italiana<br>Via Frua No. 7<br>Milan, Italy | (06) 498-5713 |
| Germany | Dr. Klaus Ritter, Director<br>Forschungsinstitut fur<br>Internationale Politik und Sicherheit<br>D-8026 Ebenbausen<br>O.B.B. Federal Republic of Germany | 81-78-4026 |
| | Dr. Manfred Meier-Preschany<br>Member of the Board of Managing Directors<br>Dresdner-Bank A.G.<br>Gallusanlage 7<br>D-6000<br>Frankfurt am Main<br>Federal Republic of Germany | (0611) 263-4263<br>telex: 41230 |
| | Mr. Karl Gustav Ratjen<br>Chairman of the Board of Managing Directors<br>Metallgesellschast A.G.<br>Reuterweg 14<br>6000<br>Frankfurt - Federal Republic of Germany | (611) 15-92-310 |

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| COUNTRY | NAME AND ADDRESS | PHONE NUMBER |
|---|---|---|
| United Kingdom | Sir Terence Beckett<br>Director General of the Confederation of British Industries<br>Centre Point<br>103 New Oxford Street<br>London, England<br>WC 1A 1DU | 01-379-7400 |
| | Mr. David Watt, Director<br>Royal Institute of International Affairs<br>Chatham House<br>10 St. James Square<br>London, England<br>SW1 Y 4LE | 01-930-2233 |
| | Mr. Samuel Brittan<br>Asst. Editor of Financial Times<br>Bracken House<br>10 Cannon Street<br>London, England<br>EC4 | 01-248-8000 |
| United States | Mr. Robert V. Roosa<br>Brown Brothers Harriman<br>59 Wall Street<br>New York, N. Y. 10005<br>U.S.A. | (184) 483-5318 |
| | Dr. Marina Whitman<br>Vice-President & Chief Economist<br>General Motors Corp.<br>767 - 5th Avenue<br>New York, N.Y. 10022<br>U.S.A. | (184) 486-3551 |
| | Mr. J. Fred Bucy<br>President<br>Texas Instruments Inc.<br>P.O. Box 225474<br>Mail Station 236<br>Dallas, Texas 75265<br>U.S.A. | (214) 995-4442 |
| Canada | The Honourable Donald MacDonald<br>McCarthy & McCarthy<br>P.O. Box 48<br>Toronto-Dominion Tower<br>Toronto, Ontario<br>M5K 1E6 | (613) 237-0143 |

...4

| COUNTRY | NAME AND ADDRESS | PHONE NUMBER |
|---|---|---|
| Canada | Mr. Paul Gerin-Lajoie<br>President<br>Projects International Inc.<br>101 Amherst Road, Suite 207<br>Beaconsfield, Quebec<br>H9W 5Y7 | (514) 694-6392 |
| | Mr. Ronald Longstaffe<br>Executive Vice-President<br>c/o Canadian Forest Products Ltd.<br>15th Floor, 505 Burrard Street<br>Vancouver, B.C.<br>V7X 1B5 | (604) 664-3602 |
| | Mr. Gordon Robertson, (Chairman)<br>President<br>The Institute for Research on Public Policy<br>60 Queen Street, 12th Floor<br>Ottawa, Ontario<br>K1P 5Y7 | (613) 238-2296 |
| Observer | Professor Eugene Skolnikoff<br>Director, Center for International Studies<br>Massachusetts Institute of Technology<br>E38, Room 648<br>292 Main Street<br>Cambridge, Mass. 02142<br>U.S.A. | (617) 253-3121 |
| Rapporteurs | Dr. John Curtis<br>Director, International Economics Program<br>The Institute for Research on Public Policy<br>60 Queen Street, 12th Floor<br>Ottawa, Ontario<br>K1P 5Y7<br>Canada | (613) 238-2296 |
| | Mr. Thomas Alexander<br>Executive Assistant to the Secretary-General of the O.E.C.D.<br>2, rue André-Pascal<br>75775 Paris Cedex 16<br>France | (01) 524-8027 |
| Administration | Mr. Donald Wilson<br>Director, Conferences and Seminars<br>The Institute for Research on Public Policy<br>60 Queen Street, 12th Floor<br>Ottawa, Ontario<br>K1P 5Y7<br>Canada | (613) 238-2296 |

MR. LANKESTER

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CBI CONFEDERATION OF BRITISH INDUSTRY

Miss Caroline Stephens : CBI Annual Dinner: 16.6.81

I am attaching a copy of the seating order for the top table and a list of all those attending the President's Reception in the Voltaire Suite at Grosvenor House, prior to the Annual Dinner.

(The printed booklet has not yet arrived from the printer)

Beatrice Colpin

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CBI ANNUAL DINNER 1981 - TABLE 1

| | |
|---|---|
| Mr Michael Shanks | Chairman, National Consumer Council |
| Lord Peart | Chairman, Retail Consortium |
| Lord Plowden | |
| Sir Richard O'Brien | Chairman, Manpower Services Commission |
| The Rt Hon Nicholas Edwards | Secretary of State for Wales |
| Sir Robert Marshall | Chairman, Nationalised Industries Chairmen's Group |
| Sir Donald Maitland | Department of Energy |
| Mr Denis Thatcher | |
| Mr Edward James | Deputy Director-General, CBI |
| Mr Trevor Holdsworth | President, British Institute of Management |
| The Rt Hon Lionel Murray | General Secretary, Trades Union Congress |
| Sir Ralph Bateman | Past President, CBI |
| Mr John McGregor | Parliamentary Under-Secretary of State, Department of Industry |
| The Hon Fiennes Cornwallis | Chairman, CBI Smaller Firms Council |
| The Rt Hon Roy Mason | Opposition Spokesman on Agriculture |
| Sir Arthur Norman | Past President, CBI |
| Lord Hailsham | The Lord Chancellor |
| Sir Ian Bancroft | Head of the Home Civil Service |
| The Rt Hon Humphrey Atkins | Secretary of State for Northern Ireland |
| Lord Watkinson | Past President, CBI |
| The Rt Hon Sir Keith Joseph | Secretary of State for Industry |
| The Rt Hon John Nott | Secretary of State for Defence |
| Sir Raymond Pennock | President, CBI |
| The Rt Hon Mrs Margaret Thatcher | The Prime Minister |
| Sir Terence Beckett | Director-General, CBI |
| The Rt Hon David Steel | Leader of the Liberal Party |
| The Rt Hon David Howell | Secretary of State for Energy |
| Sir John Hedley Greenborough | Past President, CBI |
| Mr William Rodgers | Social Democratic Party |
| Sir Peter Carey | Department of Industry |
| The Rt Hon Gordon Richardson | Governor, Bank of England |
| The Rt Hon Mark Carlisle | Secretary of State for Education & Science |
| The Hon Sir Richard Butler | President, National Farmers' Union |
| Sir Kenneth Clucas | Department of Trade |
| The Rt Hon Albert Booth | Opposition Spokesman on Transport |
| Sir Michael Clapham | Past President, CBI |
| The Rt Hon Patrick Jenkin | Secretary of State for Social Services |
| Mr Bryan Rigby | Deputy Director-General, CBI |
| Mr Anthony Hampton | President, Engineering Employers' Federatio |
| Mr Frank Chapple | Trades Union Congress |
| The Rt Hon Norman Fowler | Secretary of State for Transport |
| Sir Stephen Brown | Past President, CBI |
| Mr Geoffrey Chandler | Director-General, National Economic Development Office |
| The Rt Hon Lord Limerick | Chairman, British Overseas Trade Board |
| Mr Geoffrey Yates | Chairman of the CBI Regional Chairmen |
| The Rt Hon Frederick Willey | Leader of the Parliamentary Labour Party |

CBI ANNUAL DINNER 1981

ATTENDANCE AT THE PRESIDENT'S RECEPTION

Host:

| | |
|---|---|
| Sir Raymond Pennock | CBI President |

Guest of Honour:

Rt Hon Mrs Margaret Thatcher
with
Mr Denis Thatcher

(also with Mrs Thatcher will be:

Mr T Lankester - Private Secretary
Mr B Ingham - Press Secretary
Mr G Cawthorne)
Mr R Kingston ) Private Detectives )

Guests:

| | |
|---|---|
| Rt Hon Humphrey Atkins | Secretary of State for Northern Ireland |
| (with Mr Atkins will be Mr Corsie and Mr P Rostorick, private Detectives) | |
| Sir Peter Baldwin | Department of Transport |
| Sir Ian Bancroft | Home Civil Service |
| Mr Squire Barraclough | CBI Parliamentary Office |
| Sir Ralph Bateman | CBI Past President |
| Sir Terence Beckett | CBI Director-General |
| Mr W E Bell | Northern Ireland Civil Service |
| Rt Hon Albert Booth | |
| Sir Wilfrid Bourne | Lord Chancellor's Department |
| Lord Bridges | Diplomatic Service and Foreign and Commonwealth Office |
| Sir Stephen Brown | CBI Past President |
| Mr Terry Burns | Treasury |
| Mr M O Bury | CBI Director, Education Training & Technology |
| The Hon Sir Richard Butler | National Farmers' Union |
| Mr J Caines | British Overseas Trade Board |
| Sir Peter Carey | Department of Industry |
| Rt Hon Mark Carlisle | Department of Education & Science |
| Mr G Chandler | National Economic Development Office |
| Mr F Chapple | Electrical Electronic Telecommunication and Plumbing Union |
| Sir Michael Clapham | CBI Past President |
| Sir John Clark | The Plessey Co Ltd |
| Mr R Close | British Institute of Management |
| Sir Kenneth Clucas | Department of Trade |
| Sir Frank Cooper | Ministry of Defence |
| Hon F N W Cornwallis | CBI Smaller Firms Council |
| Sir Kenneth Couzens | Treasury |
| Sir Brian Cubbon | Home Office |
| Mr D A Dexter | National Federation of Self Employed and Small Businesses Ltd |
| Rt Hon Nicholas Edwards | Secretary of State for Wales |
| Miss S I L Elkin | CBI Director, Smaller Firms |
| Sir Philip Foreman | Short Brothers Ltd |
| Rt Hon Norman Fowler | Department of Transport |
| Mr A F Frodsham | Engineering Employers Federation |
| Mr D R Glynn | CBI Director, Economic |
| Mr W Goldsmith | Institute of Directors |

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| | |
|---|---|
| Mr S A R Gray | Welsh Development Agency |
| Sir John Hedley Greenborough | CBI Past President |
| Rt Hon Lord Hailsham | |
| Sir James Hamilton | Department of Education & Science |
| Mr A B Hampton | Engineering Employers Federation |
| Sir Brian Hayes | Ministry of Agriculture Fisheries & Food |
| Mr H Herbert-Jones | CBI Director, International Affairs |
| Mr G T Holdsworth | British Institute of Management |
| Rt Hon David Howell | Department of Energy |
| Mr T P Hughes | Welsh Office |
| Mr H J Hyams | Oldham Estates Co Ltd |
| Mr J R Ibbs | Central Policy Review Staff |
| Mr D E Jackson | CBI Secretary and Director, Administration |
| Mr E F James | CBI Deputy Director-General |
| Rt Hon Patrick Jenkin | Department of Health & Social Security |
| Rt Hon Sir Keith Joseph | Secretary of State for Industry |
| (with Sir Keith will be Mr R Riley, Private Secretary) | |
| Mr B Kingham | Association of Independent Businesses |
| Rt Hon Lord Limerick | British Overseas Trade Board |
| Mr R Lloyd-Jones | The Retail Consortium |
| Sir Douglas Lovelock | HM Customs & Excise |
| Sir Donald MacDougall | CBI Economic Adviser |
| Mr John MacGregor | Department of Industry |
| Sir Donald Maitland | Department of Energy |
| Sir Robert Marshall | National Water Council |
| Rt Hon Roy Mason | |
| (with Mr Mason will be his private detective) | |
| Rt Hon Sir Angus Maude | |
| Mr M H McAlpine | Sir Robert McAlpine & Son |
| Mr K McDowall | CBI Director, Information |
| Mr R W R McNulty | Short Brothers Ltd |
| Mr H M L Morton | CBI Director, Social Affairs |
| Mr G W Moseley | Department of the Environment |
| Mr W A Newsome | Association of British Chambers of Commerce |
| Sir Arthur Norman | CBI Past President |
| Rt Hon John Nott | Ministry of Defence |
| Rt Hon Lord Peart | The Retail Consortium |
| Mr A R Pilkington | Pilkington Brothers Ltd |
| Rt Hon the Lord Plowden | |
| Mr C J R Pope | Eldridge Pope & Co Ltd |
| Mr J J R Pope | CBI Smaller Firms Council |
| Sir Peter Preston | Overseas Development Administration |
| Mr R H Price | CBI Director, Regional |
| Sir John Read | CBI Finance & General Purposes Committee |
| Rt Hon Gordon Richardson | Bank of England |
| Mr B Rigby | CBI Deputy Director-General |
| Mr W Rodgers | |
| Mr W S Ryrie | Treasury |
| Mr P Sadler | Ashridge Management College |
| Mr Michael Shanks | National Consumer Council |
| Mr W Simpson | Health & Safety Commission |
| Rt Hon David Steel | Liberal Party |
| Rt Hon Donald Stewart | Scottish Nationalist Party |
| Mr T A Swinden | CBI Adviser |
| Mr J Tavaré | Whitecroft Ltd |
| Mr P S Taylor | CBI Director, Company Affairs |
| Mr N Vinson | CBI Smaller Firms Council |
| Mr Richard Wainwright | Liberal Party |
| Rt Hon the Lord Watkinson | CBI Past President |
| Mr R W Watson | National Farmers' Union |
| Mr H A Whittall | Amalgamated Power Engineering Ltd |
| Rt Hon Frederick Willey | |

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| | |
|---|---|
| Mr R T Worsley | CBI Director, Social Affairs |
| Mr K Wright | Australian Business & Trade Association |
| Mr G J Yates | CBI London Regional Chairman |

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CIVIL SERVICE DEPARTMENT

WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir John Herbecq K.C.B*
*Second Permanent Secretary*

cc Mr Lankester
Mr Vereker
Mr Duguid
Mr Wolfson
Mr Gaffin
for information
WR 15/5

14 May 1981

W Rickett Esq
10 Downing Street
LONDON SW1

Dear Mr Rickett,

THE COST OF THE PUBLIC SERVICE

The Lord President has asked us to let you know about an approach from Sir Leo Pliatzky on behalf of the CBI to Sir Ian Bancroft and to other Permanent Secretaries with major responsibilities for manpower in the public sector as a whole. I enclose a copy of his letter. - see L Pliatzky to I Bancroft of 14/4/81

In connection with the CBI's interest in the administrative economies which could be made by the Government, Sir Leo asked for assistance in compiling facts as to manpower numbers and costs in the public service, and in putting into context earlier quotes by the Chancellor and the Chief Secretary.

Permanent Secretaries will be replying separately for the public services in their fields of responsibility. I attach a copy of the letter which issued yesterday from this Department.

see Sir J. Herbecq to Sir L. Pliatzky of 13/5/81

Yours sincerely,

Hilary Tyrrell

Ms Hilary Tyrrell
Private Secretary

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SUBJECT

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# 10 DOWNING STREET

*From the Private Secretary* 14 May 1981

Dear John,

As you know, Sir Raymond Pennock and Sir Terence Beckett called on the Prime Minister on Tuesday afternoon. The Chancellor was also present.

Sir Terence first gave a slide presentation of the CBI document "The Will to Win". This, we were told, was a shortened version of what they are presenting to their members throughout the country. It followed the CBI document very closely.

There followed a general discussion, little of which is worth reporting. However, the following points may be of interest.

(i) Referring to the Green Paper on trade union legislation, Sir Terence said that many of their members were taking the view that the law could not continue unchanged in the long run. He said that the CBI's Working Party on this issue, under Sir Alex Jarratt's chairmanship, would be reporting in July. One idea which the Committee was exploring was the proposition that if the trade unions and their members operated within the terms of collective agreements, then they would have the protection of the existing immunities; if, on the other hand, they were in breach of such agreements, they would not have this protection. There seemed to be a considerable body of support for this; but it raised a number of questions. For example, it would mean making provision for arbitration between the parties to collective agreements; and some employers would be opposed to this.

(ii) Sir Terence described the kinds of things that the CBI would be saying to their members at their forthcoming pay conferences. One fundamental point was that employers should never reveal in advance the limit to which they would be prepared to go in pay negotiations. Under the present cash limits system, the Government seemed to ignore this. The Prime Minister explained that Ministers were aware of this problem, and that was why they were considering introducing some greater flexibility into the cash limits system.

(iii) Sir Terence said that pay negotiators were likely to have a more difficult time in the coming round because of the general feeling that the economy was levelling out. It was

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absolutely crucial that pay increases should be kept down to "middle single figures"; otherwise, there was a real risk of inflation taking off again and of the recovery being aborted. He hoped that Ministers would not sound too euphoric about the economic prospect; if they were too optimistic, this would encourage trade unions to expect excessive pay increases.

(iv) Sir Terence said that there were likely to be localised skill and material shortages in the near future. He did not expand on this but as regards skill shortages, I think he was referring to the reduction in apprenticeships because of the recession.

(v) Sir Raymond said that ordinary people did not seem to comprehend the enormous increase in oil prices over the last 10 years, and the effect this had had on industrial costs and on real demand. He was fearful that there might be another "flash-point" in the Middle East, which could easily send oil prices spiralling up again, and of the further damaging effect that this would have on Western economies. More needed to be done to get people to understand the baneful effect of rising oil prices.

(vi) There was some discussion of the importance of improving UK competitiveness - both price and non-price. Sir Raymond pointed out that there was scarcely anything in the TUC's pre-Budget representations about competitiveness. Yet deep down, many trade union leaders understood its crucial importance. He wondered whether it would not be possible to establish some kind of bipartisan industrial policy. It ought, in his view, to be possible to persuade the Labour Party to support a few simple economic truths.

(vii) Sir Terence said that CBI members were very worried about nationalised industry price increases. Sir Raymond said that nationalised industry managers would be attending the pay conferences and they would do everything possible to bring influence to bear on them. They would consider having a special item on nationalised industries at the conferences.

(viii) Sir Raymond referred to the importance of communication within companies. It was essential for managers to keep working at this. The CBI were currently conducting a survey of communications practice in member firms.

(ix) Sir Terence made a plea for further reductions in Government current spending. The CBI Working Party on Government Spending, which would have Sir Leo Pliatzky as a consultant, would be submitting an interim report in July.

/I enclose

I enclose some notes which Sir Terence handed to the Prime Minister during the meeting, and which he drew on in the discussion.

I am sending a copy of this letter to Ian Ellison (Department of Industry).

Tim Lankester.

A.J. Wiggins, Esq.,
HM Treasury.

CIVIL SERVICE DEPARTMENT
WHITEHALL LONDON SW1A 2AZ
Telephone 01 273 5400
*Sir John Herbecq K.C.B*
*Second Permanent Secretary*

13 May 1981

Sir Leo Pliatzky KCB
27 River Court
Upper Ground
LONDON SE1

Dear Leo,

COST OF THE PUBLIC SERVICE

In Ian Bancroft's absence I am writing in reply to your letter of 14 April about the CBI examination of the cost of the public service. As you know information on the different parts is not held centrally and to get the figures to you as quickly as possible I am replying on the Civil Service on the basis that those to whom your letter was copied will reply on the public services within their bailiwicks. Some parts of the public service are under the control of the Scottish and Welsh Offices, but to save time replies will not include the relatively small amounts involved. However, I have sent copies of your letter and my reply to Kerr Fraser and Trevor Hughes for information. And Northern Ireland presents its own problems, though I would hope that the omission of its figures would not cause any great difficulties in the present context.

2. The amount of detail which can be given in amplification of what is set out in the Expenditure White Paper varies considerably between different services. Paragraphs 23 and 24 in Part I describe the staffing implications of the Government's policies in general terms. I and the others concerned will do all that we can to help and we shall provide as much data as possible within the timescale. There should be no difficulty in providing information about costs and numbers for 1980-81 though it is too early to give estimated outturn figures, and we shall have to rely on the cash limits where they are applicable. For 1981-82 we shall also base ourselves upon the cash limit provision.

3. The White Paper plans for 1983-84 are of course provisional, and are shown in outline only. It may not therefore be possible to specify the manpower content of programmes for that year, or staff numbers, or either. Where there is an announced policy, colleagues will of course draw attention to it.

4. For the Civil Service, the position is as follows:

| | 1980/81 | | 1981/82 | | 1983/84 |
|---|---|---|---|---|---|
| | Numbers[a] at 1 Jan 1981 | Finance[b] £ million (Estimates provision) | Numbers[a] (financial year average) | Finance[b] £ million at 1981/82 prices | |
| Non-industrials | 542,800 | | | | The Government's aim is to reduce the size of the Civil Service to 630,000 by 1 April 1984. This would mean reductions of 102,000 since the Government took office. The estimated savings in pay costs are £675m a year at current prices |
| Industrials | 152,300 | | | | |
| TOTAL | 695,100 | 4,629 | 692,000 | 5,002 | |

Notes

[a] Staff included in the Civil Service manpower count

[b] Provision for wages and salaries, related allowances, overtime, and employers' national insurance

Yours ever

John Herbecq

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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

CBI CONFEDERATION OF BRITISH INDUSTRY

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ITEMS FOR DISCUSSION ON TUESDAY, 12TH MAY 1981

1. The Will to Win

2. Industrial outlook

3. Next pay round

4. Government expenditure

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CBI CONFEDERATION OF BRITISH INDUSTRY

## MANUFACTURING INDUSTRY : FORECAST FINDINGS

Because of the inevitable imprecision of qualitative statements at the present stage of the cycle, this month, as a special feature, we include details of the forecast ranges for the manufacturing sector which have been derived directly from the latest CBI Industrial Survey. These figures are primarily intended to clarify the qualitative statements elsewhere in the report.

### The Forecasts

The figures and charts presented in the next two pages are derived from forecasting relationships developed by CBI Staff to predict the movement of economic indicators for manufacturing industry on the basis of CBI Industrial Trends Surveys. These relationships are used to predict four-monthly changes for output, employment and prices and twelve-monthly changes for investment. The central estimates of the levels of output, employment and prices on a monthly basis and investment on a quarterly basis are generated from these forecast changes.

### Margins of Uncertainty

Estimates of the margins of uncertainty are derived from the forecast changes and these are applied to the predicted central estimates to give a forecast range within which the outturn changes are likely to fall 9 times out of 10. This is the "90 per cent confidence interval". As these intervals are calculated on the basis of the four-monthly or twelve-monthly changes, the forecasts for any individual month or quarter are subject to slightly greater margins of uncertainty. These forecast margins are different from (and generally greater than) the "average error" which is calculated by some forecasters.

These forecasts are broadly consistent with the macro-economic predictions published in last month's Economic Situation Report. In some cases there have been small changes to back data and accordingly there are minor differences in the forecast monthly or quarterly path.

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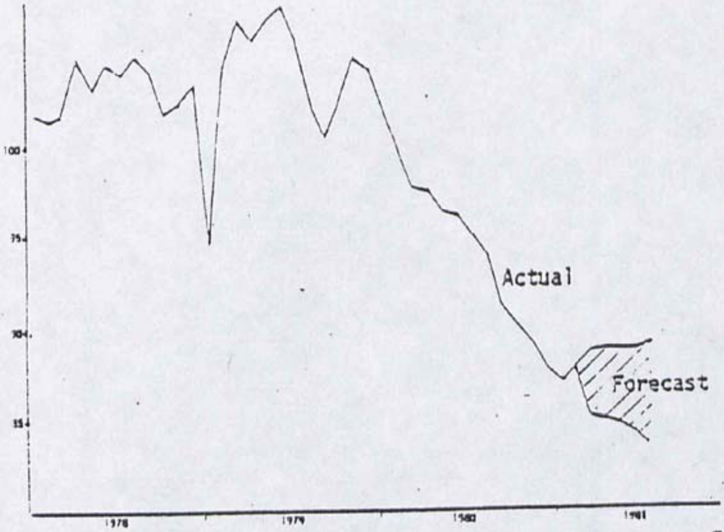
CBI CONFEDERATION OF BRITISH INDUSTRY

## Manufacturing Output Index*

Monthly (seasonally adjusted)

Index
1975=100




Source: CSO Press Releases and CBI Staff Forecasts.

| | | Index 1975=100 |
|---|---|---|
| 1980 | Q1 | 100.1 |
| | Q2 | 96.8 |
| | Q3 | 93.2 |
| | Q4 | 89.1 |
| 1981 | Jan | 87.1 |
| | Feb | 87.9 |
| | Mar | 85.2-88.8 |
| | Apr | 85.1-88.9 |
| | May | 84.7-88.9 |
| | Jun | 84.3-88.9 |
| | Jul | 83.5-89.3 |

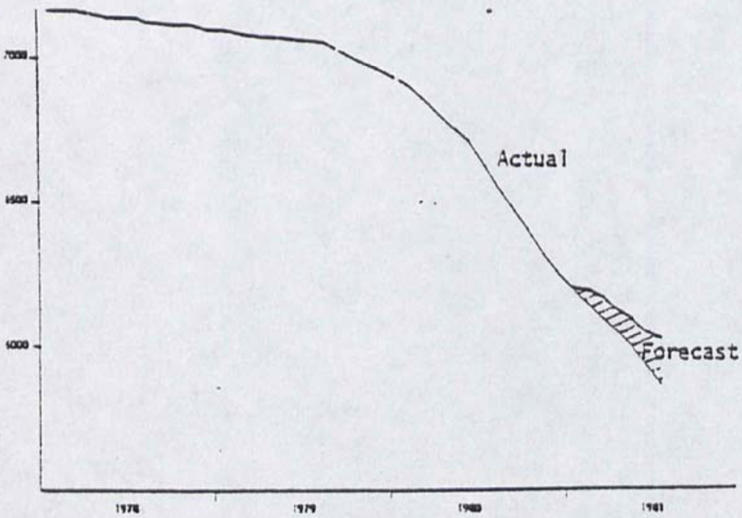
90 per cent confidence interval. Forecast from CBI Industrial Trends Surveys.

* This is the published monthly production index, not the implied level of output after adjusting for stock changes.

## Manufacturing Employment

Monthly (seasonally adjusted)

Thousands




Source: D E Gazette and CBI Staff forecasts

| | | Numbers Employed (thousands) |
|---|---|---|
| 1979 | Dec | 6939 |
| 1980 | Mar | 6841 |
| | Jun | 6703 |
| | Sep | 6469 |
| | Dec | 6238 |
| 1981 | Jan | 6191 |
| | Feb | 6135-6185 |
| | Mar | 6087-6153 |
| | Apr | 6035-6115 |
| | May | 5980-6080 |
| | Jun | 5925-6045 |
| | Jul | 5860-6020 |

90 per cent confidence interval. Forecast from CBI Industrial Trends Surveys.

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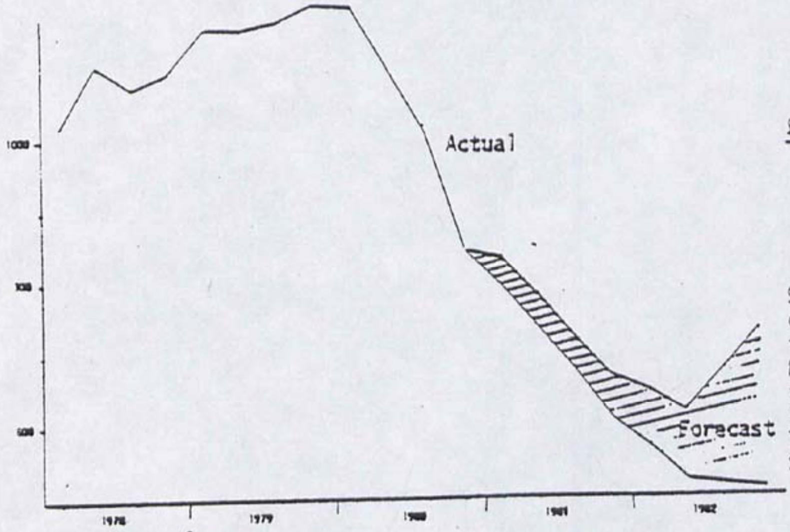
Secretary
Denis Jackson

CBI CONFEDERATION OF BRITISH INDUSTRY

## Manufacturing Fixed Investment

Quarterly (seasonally adjusted)
including estimates for leased assets.

£ million at
1975 prices




Source: 'British Business' and CBI Staff Forecasts

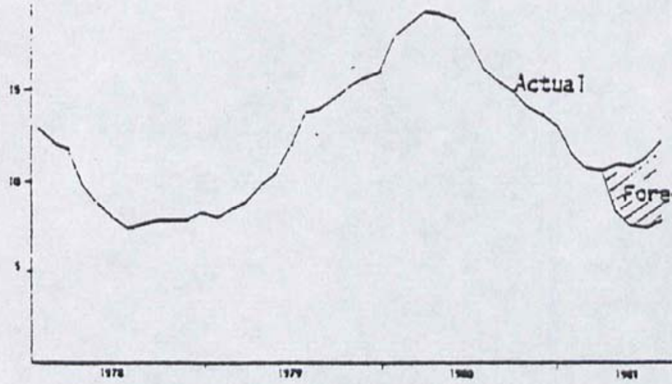
£ billion at 1975 prices

| | | | |
|---|---|---|---|
| | 1980 | Q1 | 1087 |
| | | Q2 | 1033 |
| | | Q3 | 1002 |
| | | Q4 | 920 |
| | 1981 | Q1 | 898-916 |
| 90 per cent confidence interval. Forecast from CBI Industrial Trends Surveys. | | Q2 | 867-887 |
| | | Q3 | 837-859 |
| | | Q4 | 805-833 |
| | 1982 | Q1 | 785-821 |
| | | Q2 | 762-809 |
| | | Q3 | 759-835 |
| | | Q4 | 756-862 |

## Manufacturing Wholesale Output Prices

Monthly Index

Percentage change
on year earlier




Source: CSO Press Release and CBI Staff Forecasts

Percentage Change on Year Earlier

| | | | |
|---|---|---|---|
| | 1980 | Q1 | 18.4 |
| | | Q2 | 18.5 |
| | | Q3 | 15.4 |
| | | Q4 | 11.8 |
| | 1981 | Jan | 11.4 |
| | | Feb | 10.7 |
| | | Mar | 10.6 |
| 90 per cent confidence interval. Forecast from CBI Industrial Trends Surveys. | | Apr | 8.2-10.8 |
| | | May | 7.5-10.7 |
| | | Jun | 7.4-11.2 |
| | | Jul | 7.8-12.2 |

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CBI CONFEDERATION OF BRITISH INDUSTRY

PAY CONFERENCES - JUNE AND JULY : THE MESSAGE

Background

As in the last two years, the CBI will be holding in June and July a series of private conferences for senior executives of major companies and employer organisations. The purpose is to spell out the economic prospects against which pay bargaining will take place, to suggest certain bargaining objectives, and to consider specific areas of difficulty. Last year these conferences undoubtedly contributed to the reduction in the level of settlements.

The conferences will be followed up with further meetings, slide presentations, senior management seminar material and other action.

The messages the CBI will be putting across are:

1. Although the average level of settlements has been almost halved compared with last year, we have still settled higher than our main international competitors and our unit labour cost competitiveness (down 75% in 4 years) has not improved.

2. Real profitability after tax and interest payments and apart from North Sea activities is close to zero. Profit recovery is top priority.

3. By early next year, manufacturing investment will have fallen by 25-30% since the first half of 1980. Other countries are increasing their investment. We are losing our future.

4. We see no major increase in overall activity untill well into 1982 - if then. The pressure on costs will therefore continue.

5. Unemployment will continue to rise and the year on year increase in the RPI will be unlikely to fall to single figures until 1982 - if then.

6. The need for a further significant fall in the average level of settlements - to mid-single figures - is paramount.

7. There must be no further give on hours.

8. There is still room for major increases in productivity.

9. For a number of reasons the bargaining climate will be less favourable than in 1980/81. These include the move of the miners' settlement date to November; increase in labour market pressures as some companies or sectors become busier and wish to recruit or increase output; some supply or skill bottlenecks at a very early stage in the cycle.

10. The need for the highest levels of determination and professionalism in management, and for far greater involvement of employees through systematic communication and consultative arrangements, so that what has been won so far isn't lost as activity increases. Attitudes need to change fundamentally.

11. The need for each company to develop its bargaining objectives not just in the light of its own circumstances but also of the impact on other companies. The analysis set out in "The Will to Win" and broadly endorsed by CBI members must lead to effective action.

12. The key relationships are: Pay moderation = profit = rebuild = investment = competitiveness = jobs.

../13. What the private sector

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13. What the private sector can do depends on what the public sector does and vice versa. In 1980/81 - unlike 1979/80 - the Government did a good job on pay. It must continue to hold firm to cash limits in the public services (over budget pay settlements MUST lead to savings elsewhere); it must not make forward commitments on pay or reintroduce comparability mechanisms; it must give the nationalised industries medium term financial targets to which to operate and interfere as little as possible; it must decide well in advance where it is prepared to stand and where it is not and stick with those decisions.

14. The Government should consider broadening the work of the NEDC so that the nature of the economic choices facing the country are more widely understood. Only in this way will the country begin to realise both the size and the timescale of the competitive challenge we face.

15. Don't imagine that 1981/82 is a one-off; the pressures in 1982/83 will be equally great. We mustn't let up.

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CBI CONFEDERATION OF BRITISH INDUSTRY

GOVERNMENT SPENDING

Why are we concerned? (Charts to illustrate points in CBI News Article)

(a) Private sector (particularly manufacturing) has borne brunt of recession* Zero profitability therefore inadequate provision for future, greater degree of uncompetitiveness because of this, in spite of some current benefits.

(b) Prospects for reduction in taxes and interest rates would be better if there were a reduction in government spending.

(c) Seemingly inexorable rise in public spending as a percentage of GDP. Frontiers of State not being rolled back. They are advancing.

(d) Continuing deterioration in the balance of public spending; current increasing (1½% and 1%, 1980, 1981), whilst capital (investment) spending declining (1980 = -16%, 1981 = -23%)

What do we hope to achieve?

(a) Will to Win advocated reduction in current spending of £3bn at 1981/2 prices by 1985, and an increase of £1½-2bn in capital on the (then) plans. We are reviewing this in the light of new March plans and overspending for last year (1980/81).

(b) McAlpine Working Group and questionnaire initiative to "flesh out" recommendations, and to increase pressure. Want to help Government achieve its objectives.

What are likely to be our recommendations?

Early days. Still gathering information. Ideas emerging are:

(a) Reduce head count, especially looking at numbers of administrative and support staff.

(b) Pay - i) Government should be firm in sticking to cash limits. ii) Welcome end to "staging" pay in central government. Local authorities should follow. iii) Increased contributions and/or reduced pensions seem justified.

(c) Pressure on Local Authorities - via ceiling on business rates and CBI rates groups.

(d) Efficiency drive - Multiply Rayner? Audit arrangements? The Government promised a White Paper on Efficiency in Government Service, which has been delayed through strike.

(e) Debt interest - can reductions be made via more varied instruments.

(f) Contracting out - e.g. scope for catering/cleaning/refuse collection. Questionnaire asks firms to identify specific isntances.

But main task is to get public opinion convinced of the need to solve problem, and political will necessary to act

---

* Redundancies last year: 31 per 1000 per manufacturing and construction, but 3 per 1000 in the mainly government service sectors.

MIO(81) 19
12 May 1981

COPY NO 3

M. Whitmore ✓

Re: <u>CBI Questionnaire on efficiency in Government Departments</u>.

As discussed at the MIO meeting on 11 May 1981 I enclose a copy of the above for your information.

S. Claypole.

SUSAN CLAYPOLE
Press Office
Privy Council

12 May 1981

# Questionnaire

Please help us by letting us have your views on the following Government Departments or bodies. On this page are several questions on each, and overleaf are several more general questions on Government Services.

These bodies must operate within a framework provided by Government and are required to implement certain policies. In columns 2, 3, 4 & 5 please try to restrict your assessment to how well the policies are *implemented* and to avoid reacting to the policies themselves. This restriction does not apply to Column 6.
If you do not have a view that corresponds to either category suggested in Column 2 to Column 6 please leave relevant space blank.

**Q1** Please tick if your business has had dealings with this Department or body.
**Q2** Does it understand (enter 1) or not understand (enter 0) the needs and problems of business?
**Q3** Is it generally helpful (enter 1) or unhelpful (enter 0)? Please give specific examples overleaf, Q11.
**Q4** Is it efficient (enter 1) or inefficient (enter 0)? Please give specific examples overleaf, Q11.
**Q5** Do you believe it is undermanned (enter 1) or overmanned (enter 0)? Please give specific examples overleaf, Q11.
**Q6** Do you consider it performs a useful function (enter 1) or not (enter 0)? Please amplify overleaf, Q10.
For Departments or bodies marked with asterisk, please specify the Unit(s) with which you have had dealings, if relevant. Other comments are also welcome in this column, and overleaf.

| | Q1 | Q2 | Q3 | Q4 | Q5 | Q6 | |
|---|---|---|---|---|---|---|---|
| Advisory, Conciliation and Arbitration Service | | | | | | | |
| Ministry of Agriculture, Fisheries and Food | | | | | | | |
| British Overseas Trade Board | | | | | | | |
| HM Customs and Excise | | | | | | | |
| Ministry of Defence | | | | | | | |
| Development Agencies, Corporations or Boards, whether national or regional (inc English Industrial Estates Corp) (Please enter and score those you have dealt with in blank rows provided) | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Department of Education & Science* | | | | | | | |
| Department of Employment* | | | | | | | |
| Manpower Services Commission* | | | | | | | |
| Office of Manpower Economics | | | | | | | |
| Industrial Training Boards* | | | | | | | |
| Department of Energy* | | | | | | | |
| Department of the Environment* | | | | | | | |
| Equal Opportunities Commission | | | | | | | |
| Export Credits Guarantee Department | | | | | | | |
| Foreign and Commonwealth Office | | | | | | | |
| Overseas Development Administration | | | | | | | |
| Office of Fair Trading | | | | | | | |
| Department of Health and Social Security* | | | | | | | |
| Department of Industry, including eg RDG offices, NRDC, Research Requirement Boards, sector support schemes such as MAP and the Invest in Britain Bureau Scottish Office and Welsh Office Industry Departments, and the Department of Commerce N.I. (Please enter and score those you have dealt with in blank rows provided). | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| Board of Inland Revenue | | | | | | | |
| Local Authorities eg: Planning, Building, Refuse, Fire, Police, Education, etc (Please enter and score those you have dealt with in blank rows provided). | | | | | | | |
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| Monopolies and Mergers Commission | | | | | | | |
| Patent Office | | | | | | | |
| Property Services Agency | | | | | | | |
| Tourist Boards* | | | | | | | |
| Department of Trade (Please enter and score those you have dealt with in blank rows provided). | | | | | | | |
| | | | | | | | |
| Department of Transport* | | | | | | | |
| Other departments or bodies including any other Central or Local Government Body or Public Corporation, eg, Civil Aviation Authority, New Town Development Corporations, but excluding Nationalised Industries (Please enter and score those you have dealt with in blank rows provided). | | | | | | | |
| | | | | | | | |
| | | | | | | | |
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| | | | | | | | |

**Q7** **Charges for Services** Please indicate any areas where you feel charges could be introduced, or increased to commercial levels.

**Q8** **Contracts with Government** Please indicate any areas where your business would be interested in tendering to provide, on a contract basis, goods and services currently produced by government bodies, and any suggestions as to how existing tendering procedures might be improved.

**Q9** **Capital Investment in the Infrastructure** (eg roads, railways, sewage and water, energy production/conservation etc) Please list any further government investments in national and regional infrastructure which you feel are necessary.

**Q10** **Government Services etc, which could be modified** Please list any cases where you feel services could be rationalised, or dropped altogether, or where departments or bodies could be merged.

**Q11** **Efficiency** Please give details of any experiences of waste and inefficiency in central or local government, and any suggestions for improving or encouraging efficiency (eg incentive schemes).

**Q12** Please enter town and county below, (for analysis purposes) and also give remaining information if we may contact you for further details.

**Town** ______________________ **Name of contact** ______________________

**County** ______________________ **Name of business** ______________________

**Telephone number** ______________________

______________________

______________________

If you want to expand on answers to any questions or to focus our attention on other areas do attach further information to this questionnaire.

To be taken into account replies must ARRIVE BY 15 MAY AND SHOULD BE SENT TO Mr K Ferguson, CBI Economic Directorate, Centre Point, 103 New Oxford Street, London WC1A 1DU.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

8 May 1981

Miss C Stephens
10 Downing Street
LONDON
SW1

Dear Caroline,

.... I enclose a brief on the CBI discussion paper on "The Will to Win", as requested in your letter of 15 April.

Yours sincerely
John Wiggins

A J WIGGINS
Private Secretary

## BRIEF ON CBI DISCUSSION PAPER ON THE WILL TO WIN (TWTW)

The Prime Minister and Chancellor are meeting with Sir Ray Pennock and Sir Terence Beckett on 12 May to discuss the CBI discussion paper on 'The Will to Win' (TWTW). Background briefing on the main topics likely to arise in discussion is attached as follows:

(a) Macro-economic strategy (Chapter VI)

(b) Pay determination

(c) New technology and industrial policy

(d) Public expenditure

(e) Energy prices

(f) Nationalised industry aspects (including privatisation)

(g) The exchange rate

(h) Business taxes (rates, NIS, small firms, income tax, company taxation)

(i) Proposal for an economic forum

(j) ECGD and support for overseas projects

(k) Housing policy and labour mobility

A list of the 50 main "action points" for Government, Management and Unions as put for by the CBI of pages 77 to 79 of TWTW is also attached.

General line to take

2. TWTW is a discussion paper primarily intended for discussion with CBI members before it is translated into a CBI policy document. In view of this we do not think it would be appropriate for the Government to respond to each individual proposal, particularly as the Government's position on most recommendations put forward by the CBI is well known. Accordingly, we recommend the Prime Minister should make it clear that the Government does not propose to prepare a formal response to any of the proposals put forward in this paper until it is translated into a formal CBI policy document. However, we suggest the Prime Minister should welcome the CBI's initiative in preparing this discussion paper in so far as it lays considerable emphasis on the key role British business can play in restoring economic prosperity.

3. We think Ministers might suggest that the Prime Minister's meeting should take the form of a preliminary exchange of views and that it should be made clear that, while the Government is not prepared to contemplate any dramatic changes in its policy towards industry, it is anxious to maintain a 'constructive dialogue' with the CBI and others on how

Government, industry and the unions can work together to improve our industrial performance. A further meeting between the Chancellor and the CBI, at which the Secretaries of State for Industry and Employment will be present, is being arranged for early June. It is intended that this meeting should cover pay determination, particularly the next pay round, and any follow-up action required following the Prime Minister's meeting.

Press briefing/statements

4. We suggest there should be no formal press statement following this meeting and that it would be helpful, both from the point of view of the Government and the CBI, to maintain a relatively low profile on discussions on TWTW. The Government does not want it to be thought these discussions foreshadow any major changes in its policies and the CBI will pesumably want to have a full discussion with its members before making any new public pronouncements of substance. If the CBI leaders agree, we suggest any queries from the press about the present meeting should be dealt with on the basis that the meeting simply took the form of a preliminary exchange of views on TWTW and will be followed up during the course of further meetings between the CBI and Ministers.

Discussions in NEDC

5. TWTW has been circulated informally to members of NEDC and at the meeting on 6 May it was noted that TWTW was relevant to the items on the agenda (developments in the labour market, regional industrial issues and the efficient use of energy in industry). However, in his capacity as Chairman of the NEDC the Chancellor may like to ask the CBI leaders whether they would like to see TWTW formally discussed in NEDC. It would clearly be impossible to cover all the topics discussed in TWTW at NEDC. However, the CBI might like to consider selecting a particular area for discussion. One possibility might be for the CBI to put in a short paper based on Chapters I and II on the general theme of competitiveness. (This might prove a helpful way of re-introducing pay into NEDC discussions).

Macro-economic strategy

6. The proposals in TWTW which have received most publicity are the CBI's proposals for net fiscal stimulus of £1½ billion over the four years from 1981-82. As explained in the defensive brief at Annex A we find the CBI analysis, which is set out in Chapter VI of TWTW, rudimentary and unconvincing. It rests on implausibly large multipliers, little discussion of the implications of fiscal expansion for the PSBR and an assertion that the measures will reduce inflation whereas the reverse seems more likely. While the Chancellor may like to indicate he does not find the analysis in Chapter VI very convincing, we suggest it would be sensible to steer the CBI away from any discussion of macro-economic strategy. The Chancellor may like to point out that most of these issues were discussed with the CBI

following the Budget, that the CBI's views on proposals such as the abolition of NIS and the heavy fuel oil duty are well understood as are their views on the need for further Government measures designed to reduce business costs.

Points to raise

7. Although it will be for the CBI to make the running on the points they want to discuss at the Prime Minister's meeting, we suggest that Ministers might try to focus discussion on pay determination, competitiveness, new technology and industrial policy.

Pay determination and related matters

8. Pages 37 to 41 of TWTW deal with the pay bargaining system. A more detailed brief is attached at Annex B. We agree broadly with the CBI's analysis and suggest Ministers should open the discussion by welcoming the CBI's emphasis - see flagged action point on page 41 - on need for further substantial fall in pay settlements in 1981-82 and need for "sustained realism in pay bargaining in longer term". We suggest key issues for discussion are:

(a) How can more realistic attitude towards pay bargaining be maintained/improved?

(b) While in an ideal world Government would very much like its employees and those in nationalised industries to face same disciplines as private sector, how do CBI think this can be achieved? (See also page 41 of TWTW). Are the CBI really arguing the Government should refuse to allow any comparability input into public sector pay negotiations?

(c) Is there scope for making further progress in breaking down 'the closed shop'? (This is a point the Chancellor is anxious to raise with the CBI).

Competitiveness

9. What the CBI have to say generally about competitiveness in Chapter II can be welcomed. (We think the CBI leaders deserve congratulations for being willing to tell their members in fairly forthright terms what they should be doing). In relation to the Government's role we think the CBI leaders should be less critical of the level of the exchange rate since the £/$ rate is now at its lowest level since June 1979 and UK interest rates are now among the lowest of those prevailing in industrial countries. In any discussion of exchange rates the Chancellor may want to emphasise the Government's view that the rate is primarily determined by market forces.

10. Particular points which might be discussed under the general theme of competitiveness include the following:

(a) in what ways can the CBI and Government do more to emphasise the importance of matters such as cost control, product planning and quality and to encourage positive manpower policies by business?

While Government is already providing strong political lead when it comes to importance of "business competitiveness" both within Government and generally - see page 31 of TWTW - on matters such as public purchasing policy, standards, etc do CBI leaders have any specific proposals to put forward in this general area?

New technology and industrial policy

11. CBI recognise - see page 27 of TWTW - that Government and CBI are already doing a great deal to increase technological awareness and to counter alarmist predictions about the effects of new technologies. In areas such as robotics and information technology DOI are making strenuous efforts to emphasise the opportunities and challenges which these new technologies offer. In flagged action point on page 27 of TWTW CBI suggest, among other things, that management must convince investors to respond imaginatively when it comes to backing high technology projects and that Government should use every means possible to encourage development and application of new technologies. The Prime Ministers may like to emphasise that this is an area in which she is taking a close personal interest and ask the CBI leaders to explain their thinking in this area.

12. In Chapter IV CBI suggest CBI members should consider "urgently" - see page 44 - whether they want Government to adopt an industrial policy which would make direct use of North Sea oil revenues for financing investment in growth industries. Ministers may like to stress that they attach importance to measures which promote the process of structural adjustment in the economy (ie positive adjustment) and ask the CBI leaders how the CBI members are responding to this suggestion for a change in the Government's industrial policy. CBI leaders presumably understand that North Sea oil revenues are already taken into account in Government's medium term financial strategy, but might be asked if it is realistic in the UK context to believe the Government could develop an industrial policy whereby the Government would "underwrite, not over-ride, market choices" when it comes to 'picking winners'. A defensive brief on this aspect of the CBI's proposals is attached at Annex C.

Follow-up discussions

13. In view of the importance we attach to maintaining CBI support in matters such as pay determination we suggest the CBI should be encouraged to approach individual Ministers (or officials) in Government departments if there are specific issues which they want to pursue further. The Prime Minister may like to conclude the meeting by re-emphasising that the Government for its part is most anxious to promote 'constructive dialogue' on the issues raised in the CBI discussion paper. While the Government and CBI may differ on certain specific issues, the Prime Minister may like to stress that in many areas, eg pay determination and competitiveness, there is a great deal of common ground.

## Y MAIN ACTION POINTS

| Subject | Action by (page) |
|---|---|
| **Chapter II - Competitiveness** | |
| Government cost control targets must equal those of industry | Government (23) |
| Systematic attention should be given to product planning | Management (24) |
| Attention must be paid to the importance of profit plans | Management (25) |
| Recruitment and training capacity must be maintained in order to ensure future skill supplies | Management (25) |
| Customer/supplier relations must be maintained and developed | Management (26) |
| Increased UK sourcing should be urgently considered | Management (26) |
| Positive attitudes to new technology need to be encouraged | Management, Government, Unions (27) |
| NIS should be reduced and ultimately abolished | Government (28) |
| Energy prices must not damage competitveness | Government (28) |
| The exchange rate must be reduced by implementing CBI package | Government (29) |
| ECGD should take a longer term view of its business | Government (30) |
| Support for overseas capital projects must be co-ordinated | Government (31) |
| **Chapter III - People** | |
| There must be closer contact between schools and industry | Management (33) |
| There must be better vocational preparation | Management, Government (33) |
| The apprenticeship system must be reformed | Management, Unions (34) |
| There must be more in-service training and retraining | Management, Unions (34) |
| Housing policy must be adapted to aid labour mobility | Government (34) |
| Companies should implement CBI guidelines for employee involvement | Management (35) |

| Subject | Action by (page) |
| --- | --- |
| Manpower requirements and policies must be subject to strategic examination and forward planning | Management (35) |
| Management should encourage harmonisation of staff and manual workers' employment conditions | Management (36) |
| Profit sharing and share incentive schemes should be developed | Management (36) |
| UK manning levels and plant utilization must equal the best | Management, Unions (37) |
| Restrictive labour practices must be eliminated | Management, Unions (37) |
| There must be greater support for agreed industrial relations procedures | Management, Unions (37) |
| Employees must be involved in improving efficiency | Management, Unions (37) |
| Pay determination must be reformed | Government, Unions, Management (38) |
| Workforces must be helped to understand the need to restore profitability and investment | Management, Unions (39) |
| Agreements should include a binding peace clause | Management, Unions (39) |
| Institutionalised pay comparabilities should be scrapped | Government (40) |
| Pay settlements in 1981/2 must be lower than in 1980/1 | Management, Unions (41) |
| **Chapter IV - Framework** | |
| Political consensus on industrial policy must be sought | Government (Opposition) (42) |
| Decisions must be made about the direction of industrial policy | Management (44) |
| Methods for leasing companies to help new technology and innovation | Government (45) |
| Advocates of UK withdrawal from EEC must be challenged | Management, Government (46) |
| Day-to-day decisions by nationalised industries should not be subject to interference | Government (47) |
| Practical solutions should be sought to the problems of the funding and financing of more capital expenditure of public enterprises | Government (47) |

| Object | Action by page) |
| --- | --- |
| Fiscal action should be taken to help build and maintain the capital base of smaller firms | Government (48) |
| There should be a commitment to a 25 per cent basic rate and 50 per cent top rate of income tax | Government (48) |
| The Green Paper on Company Taxation should be published as soon as possible | Government (49) |
| Public service sector administrative economies must be made to achieve savings of at least £3 billion p.a. by 1984/85 | Government (51) |
| Public sector assets must be relised to produce at least £½ billion per annum up to 1985 | Government (51) |
| Investment in national infrastructure should be increased | Government (51) |
| Minimum standards should be specified for main duties laid on local authorities by statute | Government (52) |
| CBI proposals for protecting business from high cost of rates should be implemented | Government (53) |
| Local business rates liaison groups should be developed and extended | Management (53) |
| National borrowing should be funded more from the personal sector but avoid crowding business out | Government (54) |
| ITB costs must not be transferred to employers | Government (56) |
| An Economic Forum should be set up | Government, Management, Unions (57) |
| **Chapter V - Alleviating Unemployment** | |
| Opportunities for vocational preparation must be improved | Management, Government (60) |
| Flexible retirement should be explored | Management, Government (60) |
| Voluntary service and non-military national service should be encouraged | Government (60) |

MACRO-ECONOMIC ASPECTS (CHAPTER VI)

Macro-economic recommendations of TWTW

The following are the main recommendations in Chapter VI. (All figures in 1981-82 prices.)

(i) a net fiscal stimulus of £1½ billion in each of the four years 1981-82 to 1984-85; giving a total of £6 billion in 1984-85 (TWTW points out that this is a very different animal from the TUC's proposals);

(ii) additionally a further £3½ billion is available by 1984-85 mainly from a £3 billion reduction in current public expenditure;

(iii) TWTW advances firm proposals that amount to £7 billion in 1984-85; this involves abolition of NIS and heavy oil duty, lower capital taxes, help for small firms, increased public expenditure, increased industrial policy and unemployment alleviation expenditure; a further £2½ billion is available for additional measures of benefit to industry/lower income tax;

(iv) Government should lower the exchange rate (no figure given but graphical interpolation suggests about a 7 per cent effective rate depreciation in 1982) through intervention and;

(v) lower interest rates. No figure given but elsewhere a 'good chance of single figures' is mentioned.

Impact

2. CBI claim their proposals, if implemented would have the following effect:

(i) GDP growth of 3 per cent pa 1982 to 1985;

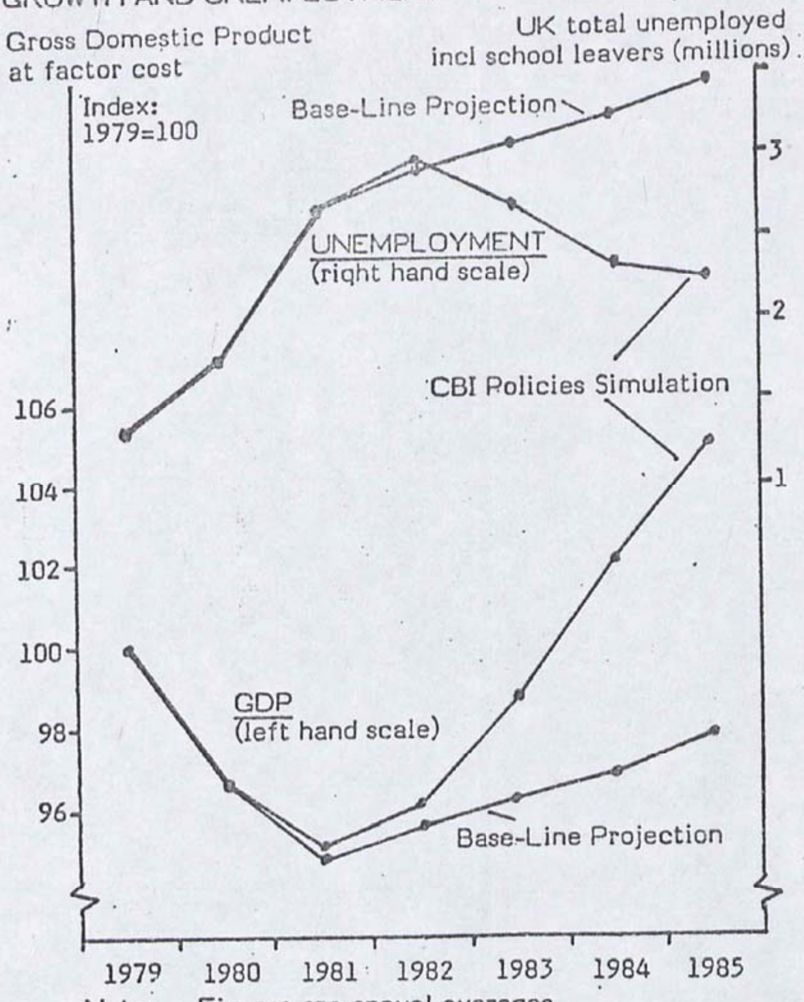
(ii) unemployment starts falling during 1983 to just over 2 million by end 1985;

(iii) inflation is slightly reduced.

The magnitude of the effects claimed are clearly shown in the attached graphs. The base line is not unduly out of line with the medium term consensus (to the extent this exists), but

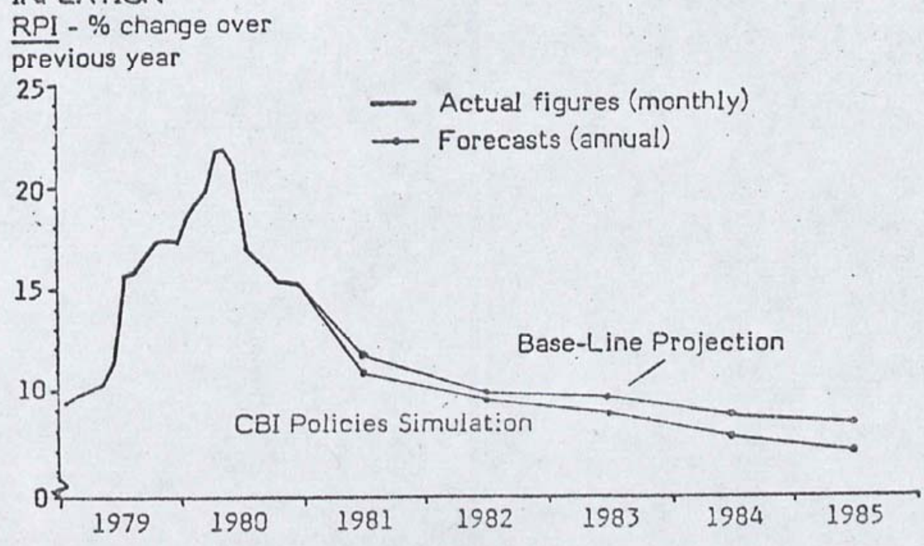
(iv) PSBR in the base run is above 1980 FSBR illustrative figures even when assuming no fiscal adjustment. TWTW is superimposed on this and "...would result in a somewhat higher borrowing requirement than in the MTFS...."

Chart VI.2
GROWTH AND UNEMPLOYMENT




Note: Figures are annual averages

Chart VI.3
INFLATION



(v) "....a deceleration of monetary growth to rates close to the top of the ranges in the Government's MTFS..."

Comment

3. For reasons set out in steering brief we suggest Ministers should endeavour to avoid any discussion of Chapter VI. If this proves impossible, we recommend Ministers draw on the following defensive briefing.

(i) TWTW macro-economic analysis is rudimentary, fragmented, glib and unconvincing;

(ii) regardless of one's standpoint of the efficacy of fiscal stimulation , the improvement in GDP, if due solely to fiscal stimulation, implies implausibly large multipliers. Many of TWTW's detailed recommendations and objectives (requiring management and union action) are virtuous in their own right (benefiting productivity and competitiveness) and should be pursued. Mixing all the ingredients up and talking about fiscal stimulus and benefit of TWTW (in its entirety) for output and unemployment risks losing sight of this;

(iii) implications for PSBR of TWTW fiscal expansion is barely discussed, but it admits that the resulting profile is above MTFS

Peter Riddell (Lombard column FT 23 April) quotes a simulation by the St James Group (which uses the Treasury model) of CBI policies, that calculated that improvements in activity reduces the PSBR. As reported the simulation assumed only a partial implementation of TWTW, involving a broadly PSBR neutral abolition of NIS and reduction in public expenditure, combined with a sterling devaluation. As such it is misleading of the implications of the totality of TWTW's recommended fiscal expansion;

(iv) discussion of monetary situation is very vague. Drafting implies that monetary growth is above, but close to upper end of MTFS ranges. The balance of risk must be that the overshoot will not be insignificant because of

(a) PSBR profile above MTFS illustrative figures

(b) intervention in the exchange market to effect a depreciation

(c) desire for single figure interest rates;

(v) given the monetary position, a lower inflation rate must be questionable. Resumption of cost inflation virtually assumed away. No convincing case is made that 3 per cent pa growth and falling unemployment would not have an undesirable effect on labour costs. A closer scrutiny of TWTW recommendation relevant to this (pay settlements lower than in 1980-81 round, reformed pay determination, improved productivity, restrictive practices, and profit sharing) is warranted, before the happy conclusion that TWTW would lower inflation (rather than increase it) can be realistically embraced.

(vi) TWTW advocates a reduction of at least £3 billion in current public expenditure. Given the Government's commitments (health, social security, defence, law and order), cuts already made/planned, and TWTW's increased expenditure on industrial policy and unemployment alleviation (plus any implication for current expenditure of TWTW extra public sector capital investment), this is not any easy task or option. Yet TWTW talks in terms of 'administrative economies', 'need not mean reductions in service' and 'contracting out by LA's.'

ANNEX B

PAY DETERMINATION

The Pay Bargaining System

The analysis of the problems (see, particularly, pages 37 to 41) is generally sound. The analysis of the failing of formal incomes policies is entirely in accordance with the Government's own thinking. So is much of the analysis of the problems of present pay bargaining arrangements, and the possible scope for improvement:

(i) the need to improve international competitiveness and industrial profitability by reducing unit labour costs

(ii) the employers' responsibility to ensure that pay increases reflect what he can afford to pay

(iii) the need for orderly bargaining structures, and for professionalism in management pay bargainers

(iv) the possibilities of longer-term pay agreements as the rate of inflation comes down.

2. The idea of compressing pay bargaining into a shorter period each year is a long-standing CBI suggestion. Its benefits are more arguable. It could, as the CBI suggest, lead to greater bargaining stability by avoiding the risk of leap-frogging. On the other hand, it may also lead to greater pressure on employers by encouraging alliances between different bargaining groups. (In the public service, there has been a move with some groups, notably NHS ancillaries, from other dates to 1 April.)

The Government's role

3. Again the general tenor of this is helpful, particularly the recognition of the very real difficulties of devising adequate financial disciplies over nationalised industry pay bargaining. Two points, however, might be discussed:

(i) the CBI say that cash limits should normally be set before negotiations start. This is obviously necessary if they are to constrain pay bargaining. The trouble is that cash limits, once set, become public and immutable. Yet no private sector pay bargainer would reveal his hand to employees in this way before opening pay negotiations. How might public sector negotiators be given a negotiating position more akin to that of the private sector?

(ii) on comparability, the need for government to have ultimate control over the level of a pay increase, in the light of financial and economic circumstances, is clear. But are the CBI saying that the difficulties of making accurate pay comparisions (which are well known) are such as to rule out any role for a more or less formal comparability input into negotiations?

The Future

4. There has clearly been a major change in negotiating practices over the last year or so as employers and unions have come face to face with economic realities. The problem for the future (inherent in the document but not clearly brought out) is to maintain these changes, rather than to drift into old habits when the economic upturn comes. The CBI are well aware of the problem - it was explicitly raised at the last CBI conference. What progress is being made on handling it?

The next Pay Round

5. This would be discussed in more detail at a subsequent meeting between the CBI and the Chancellor. For the moment, the main need is to keep alive the expectation of a further downward movement in the level of pay increases. The CBI can contribute much here - as they (particularly Sir Ray Pennock) did last year.

ANNEX C

NEW TECHNOLOGY AND INDUSTRIAL POLICY

In pages 42 to 45 of TWTW the CBI stresses the importance they attach to an industrial policy which promotes investment and growth. They explain that existing CBI policy is that the Government should use North Sea oil revenues to reduce taxes, government borrowing and interest rates. But they also suggest CBI members should "urgently" consider an alternative "more positive approach" whereby North Sea oil revenues would be used to finance the industries of tomorrow. They point out that a shift of Government policy in this direction would be consistent with the industrial policies of other countries (see the Appendix to TWTW - pages 70 to 76).

Line to take

2. We suggest Ministers emphasise that they do not rule out 'constructive intervention' at the margin which promotes structural change (ie positive adjustment). They may also like to say that in the past UK Governments have spent far too much public money on propping up declining industries and not enough in assisting growing industries. However, the present Government is continuing with schemes such as the Microprocessor Application Project (MAP) and the Microelectronics Support Programme (MISP). The Government also provides substantial support for R & D and the Chancellor may like to remind the CBI that his 24 November industrial support package of £52 million included significant additional support for R and D.

3. Like the previous Government, the present Government has yet to be convinced there is a case for setting up a North Sea oil fund or a national investment bank, as suggested by the TUC, although these proposals are being explored in NEDO's Committee on Finance for Industry. CBI will be familiar with most arguments against using North Sea oil revenues directly to finance investment:

(a) Revenues are aleady taken into account in MTFS - any money placed in a North Sea oil fund would have to come from somewhere else - lower public expenditure, higher taxes or higher public borrowing;

(b) difficult to see how a North Sea oil fund could be much more than an empty piece of accounting;

(c) present Government is not in business of 'picking winners' and believes industry not battalions of civil servants in Whitehall are those best placed to make investment decisions;

(d) most proposals of this kind are simply a cover for arguments in favour of a change in the Government's economic priorities.

ANNEX D

PUBLIC EXPENDITURE

Cost control targets

The Government have made considerable efforts to reduce costs. Public expenditure in both 1979-80 and 1980-81 was 3½ per cent lower than planned by the previous Government. It is planned to be 5 per cent lower in 1981-82, in spite of the upward pressures attributable to the recession. It was partly to offset those pressures that reductions of £1.5 billion (cash) were announced last November. Big reductions have been made in some specific programmes. Education expenditure is planned to be 10 per cent lower this year than planned by the previous Government, and housing 40 per cent lower. For the future, public spending is planned to decline by over 4 per cent in real terms between 1981-82 and 1983-84, and the scope for further reductions will be rigorously examined in this year's annual review. Cash limits impose immediate cost disciplines on public expenditure managers. See also (c) below.

Capital spending

2. The main need is to reduce public spending. Where the reductions are made depends primarily on the Governemnt's priorities between the various public spending programmes. Within these programmes the balance between capital and current expenditure will reflect the needs to be met within the finance available. Nevertheless the Government is alert to the need to avoid disproportionate reductions in capital expenditure and the balance between current and capital spending will be one of the points to be considered in the forthcoming annual review of public expenditure. The fall in capital spending between 1978-79 and 1981-82 is only £1½ billion (at 1980 survey prices) compared with £6 billion over the previous three years.

3. Borrowing by nationalised industries counts against the PSBR irrespective of whether or not they borrow from the National Loans Fund or borrow directly in the market. (See also Annex F.)

Administrative economies

4. The Government are already making substantial administrative economies. The size of the civil service has already been reduced from 732,000 to 695,000 since the Government took office, and the target is 630,000 by April 1984, ie a 10 per cent reduction. The CBI are themselves examining the scope for administrative economies of £3 billion, as recommended

in TWTW. Sir Leo Pliatzky is advising on the work, and is in touch with several departments about the provision of relevant statistics. Departments are already scrutinising their costs, with the help of Sir Derek Rayner, and potential savings of £200 million have been identified. (The March Public Expenditure White Paper said a White Paper on this work would be published, but is is not considered opportune to do so during the civil service pay dispute. However, Ministers may find it helpful to draw on the information contained in the attached extracts from Hansard.)

Minimum standards for local authority services

5. The CBI paper suggests that the Government should specify minimum standards for the main entries laid on local authorities by statute. But, where this is not already done, it would increase public expenditure.

### Statistical Service Publications

**Mr. Field** asked the Minister for the Civil Service pursuant to the reply of 18 February, *Official Report*, col. *121*, what proportion of Government Statistical Service publications is available in the Library of the House on the day of publication; and whether it would be possible for arrangements to be made for the Library of the House to receive documents in advance of publication on the same basis as journalists.

**Mr. Hayhoe:** I regret that the information sought in the first part of the question is not readily available either in the Library of the House or in Her Majesty's Stationery Office, who do not publish all Government Statistical publications. The Government have no proposals to alter the long-standing arrangements under which Government publications may be made available to the press under embargo before being placed in the Library. I am, however, requesting HMSO to review their arrangements to ensure that the Library receives copies as soon as possible.

### Departmental Reviews (Sir Derek Rayner)

**Mr. John Garrett** asked the Minister for the Civil Service when she now expects to give a substantive answer to the question of the hon. Member for Norwich, South of 27 February on the savings from departmental reviews carried out under the guidance of Sir Derek Rayner.

**Mr. Hayhoe:** I gave the hon. Member a substantive answer today.

### Rayner Reviews

**Mr. John Garrett** asked the Minister for the Civil Service if he will list in the *Official Report* the savings made by each of the departmental reviews carried out under the guidance of Sir Derek Rayner.

**Mr. Barney Hayhoe** [*pursuant to his reply*, 4 March 1981, c. *135*]: Following are Departments' latest internal estimates of savings which have been made or will be made by 1 April 1984 as a result of decisions already taken on scrutinies which they have carried out in association with Sir Derek Rayner. The figures should not be taken too precisely. They are prepared as a guide to man- ;ement on progress. Decisions on at least as many scruntinies again have still to be taken, further work has to done and it is not always easy to disentangle the savings from scruntinies from the other work in the same field. Progress on the scruntinies generally is monitored at approximately six-monthly intervals.

| *Department* | *Subject* | *Estimated eventual annual rate of recurrent savings £ million* | *Estimated total once-and-all-for-all savings £ million* |
|---|---|---|---|
| HM Customs and Excise | London and South-East Collections | 1 | |
| | Distillery and warehouse controls | up to 1·2 | |
| Department of Employment (including Manpower Services Commission) | Peaking of work and use of part-time staff in Unemployment Benefit Offices | 0·2 | |
| | Part-time local benefit and small Unemployment Benefit Offices | 0·07 | |
| | Skillcentre network | 5·1 | 20 |
| | Training allowances | 3·5 | |
| Department of Energy | Economic and statistical advice and services | 0·2 | |
| Department of the Environment (including Property Service Agency) | Maintenance of the Government Estate in the Bath area | 0·24 | 6·1 |
| | Financial control of the water industry | 0·03 | |
| | Requirement for a works transport fleet | 0·25 | |
| | Regional organisation (jointly with the Department of Transport) | 0·5 | |
| Department of Health and Social Security | Health care exports | 0·07 | |
| Department of Industry | Statistical Services (jointly with the Department of Trade) | 0·9 | |
| | Regional Development Grant Scheme | 0·5 | |
| Department of National Savings | Correspondence handling | 0·26 | |
| Department of Trade (see also Department of Industry) | Services to exporters | 6·5 | |
| Foreign and Commonwealth Office | Merger with the Ministry of Overseas Development | 0·43 | |
| | Transport for Diplomatic Service posts overseas | 0·21 | |
| Home Office | Radio Regulatory Department | 0·9 | |

| Department | Subject | Estimated eventual annual rate of recurrent savings £ million | Estimated total once-and-all-for-all savings £ million |
|---|---|---|---|
| Inland Revenue | PAYE movements procedures | 2 | |
| | Annual issue of PAYE deduction cards | 1·4 | |
| | Accounts registers in tax districts | 1·25 | |
| Ministry of Agriculture, Fisheries and Food | Administration of Farm Capital Grants | 2·9 | |
| Ministry of Defence | Food procurement for the Armed Forces | 0·25 | 3·05 |
| Northern Ireland Office | Rate collection | 1·4 | |
| Scottish Office | Consultative Committee on the Curriculum | 0·09 | |
| HM Treasury | Paper handling and registry systems | 0·1 | |
| Welsh Office | Control over highway authorities | 0·12 | 0·01 |
| | Control over local education authority building | 0·08 | |
| | Processing National Health Service building projects | 0·09 | |

Savings are also being made as a result of reviews by departments conducted as part of the Review of Government Statistical Services. The Government will be reporting on this review shortly.

Reference ..HANSARD.... 20/4/81

## Statisticians

**Mrs. Renée Short** asked the Minister for the Civil Service how many statisticians are currently employed in the Civil Service and in which departments; and what were the comparable figures for May 1979.

**Mr. Hayhoe:** The following table shows the number of staff in post in the statistician group by Department at 1 January 1981 and 1 April 1979. There are no figures available centrally for May 1979.

| *Department* | *Staff in post (full-time equivalents)* 1 April 1979* | 1 January 1981† |
|---|---|---|
| Agriculture, Fisheries and Food | 18 | 17 |
| Cabinet Office | 63 | 45 |
| CSD | 17 | 14 |
| Defence | 32 | 34 |
| Education and Science | 15 | 15 |
| Employment Group | 43 | 40 |
| Energy | 13 | 15 |
| Environment/PSA | 67 | 61 |
| Health and Social Security | 41 | 39 |
| Home Office | 23 | 24 |
| Industry | 76 | 70 |
| Inland Revenue | 19 | 21 |
| OPCS | 23 | 25 |
| Scottish Office | 24 | 23 |
| Treasury | 13 | 15 |
| Welsh Office | 12 | 9 |
| Other Departments | 30 | 30 |
| **Total** | 529 | 497 |

*Notes:*

*1 April 1979—nearest date to "May 1979" for which this information is readily available.

†1 January 1981—latest date for which figures are available centrally.

DE 18-77

## ENERGY PRICES

The NEDC Task Force report on comparative energy prices to industry concluded that prices of electricity and gas to over 95 per cent of individual industrial customers remained broadly in line with those on the Continent. However, it also suggested that for an important but limited group of energy intensive users, UK gas and electricity prices had moved significantly ahead of those charged to some major competitors on the Continent by the end of 1980. The causes identified included exchange rate movements which had dominated the last year, energy resource differences arising from natural endowment and national energy programmes, and differences in market structures and pricing practices.

### Budget measures

2. The Chancellor announced the following measures in his Budget:

(a) Energy package Relaxation of £188m in External Financing Limits of BGC (£73m) and Electricity Supply industry (£45m) accommodating nationalised industries' proposals - new load management arrangements for large electricity consumers and no increase in renewal prices for industrial gas contracts until December 1981. The benefit could be 10 per cent for gas and 5 per cent to 8 per cent for electricity. Pricing flexibility was shown by industries before the Budget - BGC's holding back on traditional link for non-interruptible gas supplies with gas oil prices. The industries continue to review tariffs so as to increase flexibility. The Government is committing £50m over the next 2 years for grants to industry towards the cost of boiler conversion (details to be announced shortly).

(b) Heavy fuel oil Keeping the duty constant in cash terms means a fall in real value of some 15 per cent since last year. It is not in the national interest to go further in the present circumstances.

(c) DERV The CBI will be pleased to see the recently announced concession, cutting the increase in DERV duty by 50 per cent to 10p per gallon. This will be effective from the Finance Bill's Royal Assent, and cost £85m in the current year for an August implementation.

### CBI comments on Energy package

3. At the NEDC meeting on 1 April, Sir Terrence Beckett considered the Government response to the NEDC Report to be disappointing; it did not match the needs of industry as depicted in the Report's findings. Industry welcomed the concessions on gas, but they

reduced the disparity only minimally, and extended only up to next December. Only a relatively small number of electricity consumers would benefit, and he doubted whether the new arrangements would amount to the 5-8 per cent claimed. The CBI was not impressed by the size of the boiler conversion scheme. Industry as a whole was far from clear what the new concessions meant.

4. Main theme of TWTW is that "energy prices must not damage competitiveness" (page 28).

Line to take

Task Force Report showed some of the major causes of disparity. Ministers have made it clear at several NEDC meetings that the Government remains committed to economic pricing. It would not be appropriate to base UK prices on cost structures in other countries (eg French hydro-electric and nuclear resources) or to take account of exchange rate fluctuations. UK Electricity costs will remain dominated by costs of fossil fuels until the CEGB's nuclear programme develops. Gas prices have to be at realistic levels, recognising the close link with oil. The Government has insufficient money to finance wide-ranging energy subsidies - Sir Terence Beckett at January NEDC "deprecated any suggestion that the CBI were seeking energy subsidies". The Budget measures will help, but are not intended to bridge the largest gaps in prices identified in NEDC Report.

NATIONALISED INDUSTRY ASPECTS

General

The specific suggestions (see pages 39-40 and pages 46-47) seem generally to have been offered in a desire to be helpful, and this constructive contribution to the debate is to be welcomed. However, in any discussion of nationalised industry policy we suggest Ministers consider re-emphasising the two constraints within which the Government is obliged to operate in setting NI objectives:

(i) the need to promote the optimal allocation and use of resources - which, given the monopoly position of many NIs, cannot be done by market forces alone; and

(ii) the need for consistency with PSBR and monetary objectives. The CBI ought to be well enough aware of the damage to the private sector through higher interest rates that would be caused by a NI - induced PSBR overrun.

Within this framework, the Government are prepared to re-examine existing arrangements and make changes where appropriate.

EFLs should not be used as disciplines in pay bargaining (page 39)

2. EFLs are a very crude and indirect discipline in relation to pay bargaining. Nevertheless, it is right that nationalised industries should conduct all negotiations against clear financial limits. In the short term, there is no better constraint. In the longer term, the performance aims currently under negotiation - and greater competition - will have a close bearing on pay.

Boards should be seen to be accountable for the achievement of their financial targets (page 40)

3. Ministers can agree with this recommendation. All nationalised industry reports and accounts should show performance in relation to financial targets. The CBI may like to spell out in more detail what more they have in mind.

Political arguments over ownership of basic industries and detailed interference with their management have been damaging to the economy (page 46)

4. The charge that the Government's policy is 'political' in the narrow sense ought to be rebutted: the privatisation programme can be defended on both macro-economic and micro-economic grounds - the former to the extent that it will help the Government achieve its

PSBR and monetary objectives, and the latter to the extent that it will increase the exposure of the industries concerned to competition and market forces.

5. The management point is rather trickier. We suggest Ministers explain that the Government's approach is to allow the Boards and managements of the industries as much flexibility as possible in their day-to-day operations, within the broad framework of financial discipline which is laid down. But there are inevitably limits to this, and it would be wrong to suppose that the nationalised industries can ever have as much freedom as their private sector counterparts. The Government stands behind the industries, and is thus bound to assume ultimate responsibility for their operations. Many of the industries are monopolies, and relatively free of the constraints imposed by market forces. Overriding considerations of notional interest are bound to arise from time to time.

EFL system has undesirable effects on investment

6. The most frequently voiced and frequently exaggeraged criticism. CBI fail to understand that more capital expenditure by NIs can only be at the expense of cuts in other private or pubic expenditure if monetary targets held. If raised, we suggest Ministers make following points.

(i) Criticism can be exaggerated. EFLs allowed massive underspending by NIs in 1976-77 to 1978-79. In real terms NIs' capital spending shows little change in 1981-82 as compared with 1975-76. Problem in past has been too much investment not providing adequate return.

(ii) Only practical solution compatible with economic policy to additional capital expenditure by NIs is offsetting cuts in other public capital or current spending or in private sector spending. May be equally damaging to suppliers.

(iii) CBI's three remedies - privatisation already Government policy where practicable; have yet to find means of introducing private capital which meets key criteria of bringing market discipline to bear on the industries and avoiding adverse monetary consequences. Distinction in PSBR figures between borrowing for capital and revenue reflects some mis-conception. NIs as a whole do not borrow for revenue purposes, nor is their borrowing hypothecated. Changes in presentation would not deal with the essential problem: what to cut back to allow additional NI investment without adding to inflation.

Government should take account of the financial position of the company sector in setting financial targets (page 47)

7. This is no doubt a veiled reference to energy prices, but there are other clear examples of financial targets cutting against the interests of the company sector (telecommunications

and postal charges being particular cases in point).

8. Ministers can emphasise that the Government is well aware of the burden placed by certain nationalised industry prices on the private sector - indeed it was for this reason that the energy price concessions were introduced in the Budget, with a consequential £120 million increase in gas and electricity industries' EFLs. But it would be wrong to allow this concern, real though it is, to disrupt the system of financial targets based on economic pricing. The Government has a responsibility to ensure that assets owned by the taxpayer earn a reasonable return over a period of years and that prices give the right long term signals about the cost of supply.

9. The Government's approach starts from the other end - through the negotiation of performance aims (relating to measures such as real unit costs) which is currently in progress. These will help to make sure that pressures on nationalised industry prices are kept down without prejudice to the financial framework within which they are expected to operate.

EXCHANGE RATE

The CBI suggest that the most important contribution the Government can make to improving competitiveness is to aim for a "realistic" exchange rate. They advocate:

(i) talking the rate down

(ii) intervention "to the maximum extent compatible with appropriately firm monetary conditions"

(iii) further reduction in interest rates.

2. These proposals now look rather dated. On 4 May the £/$ rate touched its lowest point since June 1979 and the effective rate has fallen 5 per cent from its February peak. Since the abolition of exchange controls in autumn 1979, all artificial props to sterling have been removed. The rate is determined by the market and could not be more realistic.

3. It is not true to say that the Government has appeared to favour a strong pound. Indeed some commentators (eg the LBS) have gained the opposite impression! In fact, Ministers have been careful to avoid making any pronouncements about an appropriate level for sterling in line with their philosophy that the exchange rate should be set by the market. It is in any case doubtful whether attempts to talk the rate down, unsupported by specific policy measures, would be able to counter upward market pressure. To the extent that they might have any impact, it could well prove perverse.

4. In suggesting that the Government might intervene in a way compatible with firm monetary conditions, the CBI have simply ducked the issue. Recent EMS experience has shown that in order to have any significant effect upon rates, intervention has to be undertaken on a very large scale indeed and even then may not secure its object unless there are accompanying changes in domestic policy. It is inconceivable that we could accommodate such massive intervention within our current monetary targets. Following the abolition of exchange control, there is no reason why it should be the public rather than the private sector which builds up foreign currency assets against the day when North Sea oil runs dry.

5. Since the CBI put forward their proposals, MLR has fallen from 14 per cent to 12 per cent and UK interest rates are now below the OECD average. Although sterling has also fallen, this can only partly be attributed to changes in interest rate differentials: experience in the last year has suggested that relative interest rates have had an uncertain

and at most modest impact on the exchange rate. Domestic interest rates are set to ensure that the UK meets its monetary targets but in making interest rate changes, the Government takes into account developments in all the financial indicators.

ANNEX H

BUSINESS TAXES

Business Rates

CBI argue that the Government should

(i) take powers to introduce some form of business rating relief;

(ii) reconsider their earlier proposals for a business rate ceiling

(iii) re-examine their representations for "mothballing" rating relief for business premises only partially in use.

Confidential

2. Ministers will not wish to tell the CBI that the possibility of reducing business rates was considered before the last Budget. However, it was decided that hasty action on this front would be likely to open up the whole question of the future of domestic rates before the Secretary of State for the Environment had had a chance to put forward his considered proposals on the general question of rates to colleagues.

3. If the CBI raise the question of business rates, we suggest Ministers say the Government remains concerned about the burden of rates on businesses and is continuing to monitor the situation closely. However, none of the CBIs three ideas would have been appropriate for the Finance Bill. Rating relief for all businesses would either have been very expensive, or would have spread the jam very thinly. A business rate ceiling introduced in 1981-82 would introduced complications into the new block grant system for local authority finance. It is hoped that the latter itself will serve as a rein on excessive local authority spending which is a primary cause of businesses present rating difficulties. The "mothballing" proposal is the idea that where a part of business premises is no longer being used, the occupier should be entitled to partial rating relief. During the passage of the Local Government Planning and Land Act 1980 the Lord Advocate promised that this idea would be kept in mind.

4. The Prime Minister and Chancellor may also like to be aware that the CBI have recently written to the Secretary of State for the Environment recommending total abolition of business rates. If this possibility is put forward, we suggest Ministers should stress the very real difficulties it would cause with regard to the financing of local authority expenditure.

National Insurance Surcharge

5. The CBI may well press the case for some reduction in the NIS as a prelude to its abolition.

6. Line to take - although the matter is kept under review, in a difficult year the reasources available to directly help industry were not sufficient to allow across-the-board measures of this type, given the full year £700 million PSBR cost of a percentage point reduction in the current 3½ per cent rate, and the fact that such a reduction would benefit not only the manufacturing sector, but also other sectors which are less exposed to foreign competition.

Fiscal action should be taken to help build and maintain the capital base of smaller firms

7. The Chancellor can take credit for the action he has already taken in this area. In particular, there is the Business Start-Up scheme - a relief unparalled in any other major country - the Loan Guarantee scheme and the Venture Capital scheme. The main task now is to increase public awareness of what has been achieved and to build on it. Hence the Business Opportunities Programme, launched on 5 May.

CBI recommendation for Government commitment to a 25 per cent basic rates and 50 per cent top rate of income

8. Ministers can point out that there is a manifesto commitment to cut income tax at all levels and that in his first Budget the Chancellor indicated that a basic rate of 25 per cent was his long-term aim. Substantial progress towards this has, of course already, been made. The top rate of tax on earned income has been cut from 83 per cent to 60 per cent and the basic rates of tax from 33 per cent to 30 per cent (though the lower rate band has been abolished). The fiscal adjustment in the Medium Term Financial Strategy suggests that there might be scope for reductions in taxation during the life of this Parliament. But there is room for debate about the relative priority which should be given to further cuts in tax rates compared with for example, raising tax thresholds (for reasons of equity and staff saving), further easing of the capital taxes or more direct help for industry.

Green Paper on Corporation Tax

9. We understand that the CBI interest in early publication of the Green Paper has waned following the Government's decision not to legislate for a credit restriction for the stock relief scheme. Recent informal contacts suggests that the CBI now see no advantage in early publication.

CBI PROPOSAL FOR AN ECONOMIC FORUM

The CBI say on pages 56 to 57 of TWTW that they would like to see the setting up of an economic forum within which the economic choices facing the country would be openly discussed, and where differences would be freely debated and clarified. They first put forward the idea as part of their proposals for the reform of pay determination in 1977. They say that the forum could take many shapes - a development of existing institutions such as the NEDC, a new institution or even a series of ad hoc debates.

Line to take

2. The Government strongly supports the view that we should do all we can to create a wider understanding of the seriousness of the current economic situation and of the consequences of future actions, particularly on pay. One way of doing this is through the monthly meetings of the National Economic Development Council. In recent months, the Council has had a number of valuable discussions on subjects such as employment, large overseas capital projects, industrial energy prices and regional policy.

3. There would certainly be some advantage in having a more open "economic forum" discussion on economic issues, and on pay in particular. It would, for example, help to create greater public understanding of such things as the relationship between wage increases and unemployment. But there would also be difficulties. Discussion in a public forum could well encourage the different sides of industry to adopt inflexible positions -thus preventing any meeting of minds.

ANNEX J

ECGD Support for Overseas Projects

ECGD provide a comprehensive range of facilities for exporters which compare favourably with those available to our main competitor countries. The Department is required to operate overall at no net cost to public funds. Increases in premium rates in recent years have been necessary to help meet the cost of the record numbers of claims arising, particularly those from political causes and from buyer default. The increase in premium income has not been sufficient to meet the significant losses incurred and ECGD's reserves have hence been severely reduced; and the outlook (eg the prospect of hea y Polish claims) is not encouraging.

2. It is important that ECGD's insurance operations should be run on a commercial basis since

(i) there is no point in exporting unless we get paid;

(ii) we have international obligations to operate export credit insurance on a self-supporting basis;

(iii) failure of ECGD to break-even has a direct adverse impact on public finances.

3. ECGD welcomes assistance and advice from exporters and from the City on the development of new facilities which can operate at no net cost to public funds and which will enable exporters to compete more effectively.

4. The Government co-ordination of UK companies and resources for UK bids for major overseas contracts is undertaken by the Projects and Export Policy Division - a Division which was established jointly by the Departments of Trade and Industry in mid-1980 and which is staffed by more than 60 people.

File

R H

MR TAYLOR

MR RYLANDS

MEETING WITH THE CBI, TUESDAY, 12 MAY 1630 HRS

The Prime Minister wishes the presentation to be in the large dining room and the talks in her study.

CAROLINE STEPHENS

8 May, 1981

C.

PRIME MINISTER

CBI Presentation on
"The Will to Work"
next Tuesday

Would you be agreeable to having the presentation in the large dining room followed by your talk in the Study?

C.S.

Yes
MT.

7 May 1981

FILE

CONFIDENTIAL

R H

Incl BL

MR WRIGHT
CABINET OFFICE

Sir Terence Beckett and Sir Ray Pennock are coming to see the Prime Minister on Tuesday, 12 May at 1615 hrs. They are coming to the Cabinet Office at 1610 hrs. Could you please meet them and bring them through.

CAROLINE STEPHENS

6 May,1981

CONFIDENTIAL

1.

PRIME MINISTER

Meeting with the CBI

Sir Ray Pennock and Sir Terence Beckett are due to come in on Tuesday 12 May to discuss with you and the Chancellor the CBI's document "The Will to Work".

Sir Ray Pennock has telephoned me to say that he and Terence Beckett have produced what he thinks is a rather good presentation on the document which they are giving to CBI members up and down the country as a prelude to discussion. The presentation includes slides and lasts thirty minutes. Sir Ray Pennock wondered whether you and the Chancellor would find it helpful if he began the meeting on 12 May with the presentation.

I said that I would consult you but my first reaction was that thirty minutes was perhaps a bit too long as the introduction to the meeting with you and the Chancellor. I asked whether the presentation could be cut down to, say, fifteen minutes, and he saw no difficulty about doing this.

Would you like your meeting with Sir Ray Pennock and Sir Terence Beckett to begin with their presentation? If you do, do you want the full works or a shortened version?

Shortened if they can do it.

MAW.

MT.

1 May 1981

Spoke Sir Ray Pennock.
He will be in touch about the equipment he will need for the presentation. He will then need to consult the Prime Minister about where in No 10 we have the meeting.

[illegible]
6 V.

b/f to Mr Whitmore after w/e.
C.P. 7/5.

MT

R 2. md Pd

10 DOWNING STREET

*From the Private Secretary*

Prime Minister.

This meeting is to discuss the 'Will to Win', the document published by the CBI last month setting out their medium term economic and industrial strategy. They sent you an advance copy, with a request for a meeting with you to discuss it. You agreed at the time to see them. A brief for the meeting is being prepared.

24.iv

(1) Mr Whitmore

(2) Prime Minister

CBI

You will remember that you asked to have a meeting with Sir Ray Pennock and Sir Terence Beckett. They are coming in at 1615 on Tuesday 12th May + Chancellor.

C.S.

24/4

JS

Inc PA.

10 DOWNING STREET

*From the Private Secretary*

15 April 1981

Dear Louise,

The Prime Minister is meeting with Sir Ray Pennock and Sir Terence Beckett from the CBI at 1615 on Tuesday 12 May at 10 Downing Street. The Chancellor has agreed to be present at the meeting.

They are coming to discuss their document, "The Will to Work", and I would be grateful if you could supply us with a full brief on this paper, to reach us by close of play on Friday 8 May.

Yours sincerely,
Caroline Stephens

Miss Louise Bernie,
HM Treasury.

JS

SIR LEO PLIATZKY

01-928 3667

27 RIVER COURT,
UPPER GROUND,
LONDON SE1 9PE.

Sir Ian Bancroft GCB
Civil Service Department
Old Admiralty Building
Whitehall
London SW1

14 April 1981

Dear Ian,

Cost of the Public Service

I have been invited by the CBI to contribute to a piece of work designed to develop one of the recommendations in their recent discussion document called "The Will to Win" to the effect that the Government should mount a programme of administrative economies so as to produce savings of at least £3 billion a year in current spending by 1984/5. This should be taken to mean £3 billion in real terms and to be additional to any reductions already taken into account in the recent Public Expenditure White Paper. Cost reductions (i.e. a negative RPE) would count towards the target. In practice the CBI exercise may not confine itself to purely administrative economies in current expenditure or to a target of £3 billion. I understand that Treasury Ministers and some other Ministers are likely to be interested in the results of this examination.

Although I sympathise with the desire to make additional funds available for capital investment, I do not associate myself with the view that administrative savings of this size could be secured, whether in order to finance investment or to reduce taxation, without major changes of functions about the desirability of which there would no doubt be fierce differences of view. However, I do think it desirable to see whether you and the others to whom I am writing can help in putting together a factual analysis of manpower numbers and costs in the public services, so as to promote a more enlightened discussion. This would also be of value in connection with the various pieces of writing and speaking in which I am involved from time to time in my City University capacity. I realise that the CSD does not have policy responsibility for public service manpower as a whole, but I imagine that you are the best repository of information on the subject and in any case you provide the best focal point to which to address this letter.

I noted that the Chancellor of the Exchequer in his Budget speech gave a figure of about £30,000 million as the pay bill for the public services in 1980/81, which presumably included the National Health Service and the armed forces as well as central and local government employees, and that the Chief Secretary said in a speech in the Commons on 10 April that a third of all

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C670

SIR LEO PLIATZKY

01-928 3667

27 RIVER COURT,
UPPER GROUND,
LONDON SE1 9PE.

current spending consisted of wages and salaries of people employed in central and local government. I am not sure how the latter statement relates to the former, but in any event it would be desirable to have an updated estimate of the £30,000 million for 1981/82, plus whatever projection of this can be given for 1983/84 (which is as far ahead as the Public Expenditure White Paper goes, now that the survey period has been reduced) and the most meaningful breakdown that can be given of these two aggregate figures, together with the manpower figures to which they relate.

Initially any such breakdown would presumably show separate expenditure and manpower figures for the civil service (non-industrial and industrial), local government, the armed forces and the National Health Service. (I do not know if there are any other categories embraced by the term public services). In addition it would be helpful to have any further meaningful subdivisions which are relevant to this exercise, though I appreciate that projections for 1983/84 may be less detailed and less firm than estimates for 1981/82, but even guesstimates would be better than nothing for our purposes. In particular one would like to see a breakdown of the figures for local government, the National Health Service and defence manpower, as well as for the civil service, on the lines of the enclosed pro-forma, or in whatever other form best suits the purpose.

The CBI staff would also like, if it is possible, to have the same breakdown for 1980/81, so as to compare it with the existing published data for that year, though I do not find this essential for my own particular purposes.

It would be helpful if this information could be provided within roughly a fortnight. If it is easiest for the various Departments to supply their own figures direct, there is no need for the CSD to marshal them all together.

I am sending copies of this to Douglas Wass, John Boreham, Frank Cooper, John Garlick, Jim Hamilton and Patrick Nairne. If you or any of those named would care to have a word on the subject with me and perhaps one of the CBI team, perhaps I could be informed. I can be contacted at my home address or, strictly for this purpose only, messages can be taken by Donald MacDougall's office at the CBI, 379 7400 or by Miss Joanne Waldern at the same number on extension 385.

Yours,

Leo

Leo Pliatzky

cc

Sir Douglas Wass, KCB, Treasury
Sir John Boreham, KCB, CSO
Sir Frank Cooper, GCB, CMG, MOD
Sir John Garlick, KCB, DOE
Sir Jim Hamilton, KCB, MBE, DES
Sir Patrick Nairne, KCB, MC, DHSS

| | [1980/81] | | 1981/82 | | 1983/84 | |
|---|---|---|---|---|---|---|
| | Numbers | Cost £ million (estimated out-turn) | Numbers | Cost £ million at 1981/82 prices | Numbers | Cost £ million at 1981/82 pric |
| **Civil Service:** | | | | | | |
| Non-industrial | | | | | | |
| Industrial | | | | | | |
| TOTAL | | | | | | |
| **Local Government:** | | | | | | |
| Office staff (sub-divided by function if possible) | | | | | | |
| Teachers | | | | | | |
| Non-teaching educational staff | | | | | | |
| Police | | | | | | |
| Fire-brigade | | | | | | |
| Manual workers | | | | | | |
| Others | | | | | | |
| TOTAL | | | | | | |
| **National Health Service:** | | | | | | |
| Doctors | | | | | | |
| Other medical staff (nurses etc) | | | | | | |
| Technical ancillaries | | | | | | |
| Manual workers | | | | | | |
| Administrative staff | | | | | | |
| Others | | | | | | |
| TOTAL | | | | | | |

| | Numbers | Cost £ million estimated out-turn | Numbers | Cost £ million at 1981/82 prices | Numbers | Cost £ million at 1981/82 pric |
|---|---|---|---|---|---|---|
| Defence: | | | | | | |
| Total defence budget, of which: | | | | | | |
| Armed forces | | | | | | |
| MoD civilian non-industrials* | | | | | | |
| MoD industrials* | | | | | | |
| | TOTAL | | | | | |

* These will also have been included in the Civil Service figures

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Telegrams Cobustry London WC1

From
Sir Raymond Pennock
President

CBI CONFEDERATION OF BRITISH INDUSTRY

Confidential

18th March 1981

Ind Pol

CF
P.9

Dear Tim,

Thank you for sending me so expeditiously the note about our meeting with the Prime Minister. I appreciate this is on a personal basis and you can rest assured it will be treated in this way.

Yours sincerely,

Ray Pennock

Tim Lankester Esq.,
Private Secretary to the Prime Minister,
10 Downing Street,
London, SW 1.

FILE

VLB

Ind Pol.

RESTRICTED

16 March 1981

I enclose a copy of my record of the Prime Minister's meeting with Sir ~~Rg~~aymond Pennock and Sir Terence Beckett on Friday evening.

I am sending copies of this letter and enclosure to Ian Ellison (Department of Industry) and David Wright (Cabinet Office).

T P LANKESTER

A. J. Wiggins, Esq.,
H.M. Treasury.

RESTRICTED

NW

VLB

**P E R S O N A L**

FILE

16 March 1981

I enclose on an entirely personal basis a copy of my record of your meeting last Friday with the Prime Minister. As on previous occasions, I understand that you asked Clive if you could have this.

T P LANKESTER

Sir Raymond Pennock

**P E R S O N A L**

Cc Mr. Ingham
Wolfson
Walters
Hoskyns

cc. Master set.

RESTRICTED

SUBJECT.

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND THE PRESIDENT OF THE CONFEDERATION OF BRITISH INDUSTRY AT 1615 HOURS ON FRIDAY, 13 MARCH 1981 AT 10 DOWNING STREET

Present:

| | |
|---|---|
| Prime Minister | Sir Raymond Pennock, President of the CBI |
| Chancellor of the Exchequer | Sir Terence Beckett, Director General of the CBI |
| Mr. C. Whitmore | |
| Mr. T. Lankester | |

* * * * * *

Sir Raymond Pennock said that he was grateful to the Prime Minister for agreeing to see them at such short notice. Their request for a meeting had arisen out of a meeting they had had with some of their members from the regions the previous day. These members had strongly attacked the Budget, and had requested him and Sir Terence to make plain directly to the Prime Minister the CBI's concern. If the CBI had worries about the Budget, then it was right that the Government should know about them. But this did not mean that the CBI were moving into confrontation with the Government. The CBI were quite simply disappointed that the Budget had given industry much less help than they had hoped. His own reaction to the Budget Speech was fairly typical of CBI members: they felt that the Chancellor's analysis was impeccable, particularly insofar as he had spelled out the growing imbalance between the private corporate sector on the one hand and the personal and public sectors on the other. Starting from this analysis, they had expected some very substantial relief for industry. But in fact, the latter had turned out to be very meagre. The CBI of course welcomed the MLR cut and the announcement of stock relief (though both of these had been more or less anticipated). But these and the other

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minor measures that had been announced did not amount to very much, and as a consequence it seemed unlikely that the imbalance in the economy would be corrected; and industry was likely to be faced with even bigger problems.

Sir Terence Beckett, referring to a note which he handed to the Prime Minister (copy attached), said that the fiscal effect of the Budget was to take money away from industry. The CBI calculated that in 1981/82 industry would be some £550 million directly worse off as a result of the tax measures. This was a very disappointing outcome to all their representations. They were especially disappointed that the Heavy Oil Duty had not been abolished (though they were aware of the complications relating to the Frigg Contract), and that nothing had been done to reduce the National Insurance surcharge. More generally, they felt that a PSBR of £10½ billion in 1981/82 was too restrictive. The Chancellor was estimating the PSBR outturn for 1980/81 at £13½ billion; allowing only for inflation and without any allowance for the effects of the recession going deeper, the corresponding figure for 1981/82 would be £15 billion. Against this background, they felt that a concession on the NIS and Heavy Oil Duty would be justifiable; this would add only an extra £1 billion to the £10½ billion PSBR already forecast, and a PSBR of £11½ billion would - in their view - be consistent with achieving the 6-10 per cent M3 target and a fall in interest rates. Many CBI members had been "hanging on" until the Budget; a number of them would now take the tough decisions that they had postponed in the hope that the Budget would provide some relief. His own view was that the Budget would make the recession worse; it would have been better to have taken some risk on the PSBR than to take the greater risk of a worse recession.

The CBI did not wish to get into a confrontation with the Government. But they had to ask whether there was any possibility of now implementing their earlier recommendations. If not, they would like to press for additional cuts in

/ Government

Government current expenditure so as to provide the possibility of a large further cut in MLR.

The Prime Minister said that the CBI's calculation of the direct effects of the Budget on industry was misleading. It did not take into account the extra spending on the nationalised industries which had been announced over the last month or two; it ignored the full effect of the change in stock relief; the figure of £175 million for extra "take" from employers' National Insurance contributions (ENIC) looked rather high; and the calculations failed to take account of the effect of the 2 per cent MLR reduction. As it was, the Chancellor had taken a risk with the 2 per cent cut, and he certainly could not have done it with a PSBR of £11½ billion. The Government had listened carefully to the CBI's representations prior to the Budget, and they had understood that the CBI had given highest priority to a reduction in interest rates. (Sir Raymond Pennock confirmed that this was the case.) The CBI's recommendations on tax would have resulted in a PSBR of about £17 billion, which would have been totally unrealistic. The fact was that mounting public expenditure - the estimated cash figure for 1981/82 was £104 billion - had to be paid for; and that was why taxes had had to be raised.

The Chancellor of the Exchequer said that the CBI's pre-Budget judgement had been that interest rates could be reduced consistently with a PSBR of £12-12½ billion in 1981/82. The decision to go for a PSBR of £10½ billion had been a difficult one, but he and his colleagues had finally decided that anything higher than this would have prejudiced the MLR reduction. Against the background of rising interest rates in other countries, the 2 per cent cut - coming on top of the 3 per cent fall since last summer - should not be under-estimated as a significant measure to help industry.

/ Sir Terence

Sir Terence Beckett said that the tax increases announced, because of their effect on activity, could well lead to a higher PSBR than the Chancellor intended. The CBI were in any case now only looking for a PSBR of £11½ billion, not £17 billion as suggested by the Prime Minister. As regards the calculations, the 2 per cent MLR cut was worth about £500 million, and the £175 million figure for ENIC might be slightly too high; but even taking both of these into account, the Budget would leave industry at best in balance. It was true, as the Prime Minister had said, that the Government had announced extra spending on nationalised industries; but this underlined the fundamental problem that public spending was too high. Even with the additional spending on nationalised industries, the private sector was faced with rapidly rising prices from these industries.

Sir Raymond Pennock asked what had come of the Government's plans to cut back current spending. There was a strong feeling amongst CBI members that, while they were being forced to cut back, the Government was not doing so. He hoped that the Government would find an extra £1 billion in current spending reductions. The Chancellor of the Exchequer explained that he and his colleagues had looked hard for further cuts; but with overspending on certain programmes such as defence as a result of the recession, it had not proved possible to reduce programmes any further.

Sir Raymond also asked why the Government had not dealt with the complication caused by the Frigg Contract earlier so as to make the abolition of the Heavy Oil Duty possible. The Chancellor of the Exchequer explained that the Frigg Contract agreement was in overall terms to the UK's advantage. To make a change with respect to the Heavy Oil Duty would have required renegotiating the whole contract, and this could well have left us worse off. Unfortunately, he had not been able to explain this publicly while discussions were currently going on in the Norwegian Parliament about Statfjord. In response to a further question from Sir Raymond,

/ the

the Chancellor of the Exchequer said that it would not have been possible to have reduced MLR by 2 percentage points and at the same time to have taken two points off the NIS; he had judged that the MLR cut was better for industry than an NIS reduction (only two-thirds of which would have benefited manufacturing industry).

The Prime Minister then asked which type of companies were being hit by the recession. Sir Terence Beckett said that companies of all sizes were affected. Although the Budget had provided some help to small companies, their prosperity was dependent on the success of large companies. Sir Terence reiterated that the Budget was of no net help to industry, and it was not in any way an industrial Budget. The non-nationalised manufacturing sector had suffered greatly over the last 18 months; the Budget had not made their problems any easier.

Sir Terence went on to say that the CBI would like to be able to say to their members that, if the Budget could not now be changed, they would hope for a further MLR cut soon. Without some such indication, many of their members would lose hope altogether. The tightness of the PSBR for 1981/82 suggested that a further MLR cut was what the Government were aiming for; and it would be made all the more possible if there were further cuts in spending.

The Chancellor of the Exchequer said that it would be unwise for the CBI to excite excessive hopes of a further reduction in interest rates. Further reductions in MLR would be by no means easy, and a 5 per cent reduction (which was referred to in the note handed over by Sir Terence) was simply not possible. However, it certainly was the case that the Government were giving top priority, apart from reducing inflation, to getting interest rates down further, and the CBI could certainly tell this to their members.

/ Sir Terence

Sir Terence said that it would help the CBI to hold their members' support for the Government if they could say something on these lines. Although the Government's and the CBI's analysis of the underlying situation seemed to be identical, their view remained that the Budget had been misjudged. He hoped that the Government fully understood their concern; but at least the assurance that the Government wanted to reduce interest rates further was helpful.

The meeting ended at 1740 hours.

R.

16 March 1981

CBI Representations following 1981 Budget

1. The Chancellor drew attention to the imbalance between the fortunes of individuals and businesses.

2. He certainly hit individuals with failure to Rooker-Wise and with increases in specific duties twice the rate of inflation.

3. But he failed to give any net fiscal relief to business. On the contrary, the effect was to take away some £500-600 million from business generally, plus £400 million from the banks, plus £1 billion from the oil companies, making a total of nearly £2 billion. (See attached table.)
   If it were right to count the 2% cut in MLR as a Budget measure, this would be equivalent to a net relief of £500 million.

4. In the circumstances, the least we can ask for is the reinstatement of our demands for 2 points off NIS and abolition of Heavy Oil Duty. This would cost £1.3 billion in 1981/82, and increase the PSBR by £1 billion (allowing for the increase in revenue and reduction in expenditure resulting from the consequential higher activity), to £11½ billion instead of the Chancellor's estimated £10½ billion after the Budget measures.

5. This would be quite restrictive enough. The PSBR in 1980/81 is estimated by the Chancellor at £13½ billion. Allowing only for inflation, the corresponding figure in 1981/82 would be nearly £15 billion. (This allows nothing for the adverse effects of the deeper recession on government receipts and spending.)

6. We regard a cut to £10½ billion as excessive. Our preliminary estimates suggest that the Budget would reduce output by 1%-2% and increase unemployment by at least 100,000 next year; and reduce profits of individual and commercial companies (outside North Sea) by £1 billion or more.

7. We reckon that a PSBR of £11½ billion would be consistent with the Chancellor's target growth of £M3 of 6%-10% and with a continued fall in interest rates.

8. An alternative strategy to give business the same reductions in cost as the £1.3 billion tax concessions described in paragraph 4, by reducing MLR, would need a reduction of 5 percentage points. This would only be practicable if there were an effective campaign to cut current public spending substantially.

CBI
13 March 1981

## DIRECT EFFECTS OF BUDGET ON BUSINESS IN 1981/82 (1)

| GIVE | £ million |
|---|---|
| Stock relief | 180 |
| Small companies corporation tax rate | 12 |
| Energy prices | 118 |
| VAT; increase in registration limits | 5 |
| | 315 |

| TAKE | |
|---|---|
| DERV (100%) | 270 |
| Petrol (35% of 910) | 320 |
| Vehicle excise duty (45% of 225) | 100 |
| Employers' National Insurance Contribution (2) | 175 |
| | 865 |
| Less "GIVE" | 315 |
| Net | 550 |
| PLUS - Oil | 1020 |
| Banks | 400 |

(1) Excluding indirect effects through deflationary effects of Budget

(2) Announced in November. Excess over what necessary.

The CBI's pre-Budget appraisal (ANNEX A(i)), with its emphasis on individuals in work benefitting at the expense of companies and the unemployed and on cost inflation and the loss of competitiveness, had much in common with the Budget speech, as did some of the remedies mentioned by the CBI: improved productivity, realism in pay settlements, "lower interest rates consistent with appropriately firm monetary and fiscal policies". But the CBI also spoke of " a positive approach to exchange rate policy" and "tax changes to reduce business costs.

2. Their detailed recommendations are reproduced in Annex A (ii), with the list headed by reduction in NIS and abolition of Heavy Oil Duty. They recommended against increasing the burden of income tax (e g by failing to compensate for inflation) and against raising indirect taxes.

3. So they will no doubt ask why, if the Government accepted their analysis they did not act on the recommendation.

4. The response might include the following points:-

(a) The CBI's figures cannot now be regarded as realistic. They envisaged a PSBR of £12-£12½ billion in 1981/82. Their recommendations on tax would, however, on our calculations, have pointed to a PSBR of about £17 billion (£15 billion on the basis of no tax changes apart from revalorisation; add £1+ billion for not revalorising specific duties and £1+ billion for NIS and Fuel Oil Duty reduction).

(b) Even the £12 - £12½ billion PSBR proposed by the CBI is too high to achieve the government's monetary objectives. The Budget is based on a PSBR of £10½ billion (4¼% of GDP). Anything higher was felt to run a severe risk in terms of either inflation or interest rates.

(c) Given that, for these reasons, substantial revenue - raising was needed, the government has listened to the CBI so far as the pattern of that was concerned. With the exception of the special taxes on petroleum and the banks, no taxes applying specifically to business have been raised, while large amounts of additional taxation both direct (through non-revalorisation) and indirect have been loaded onto the personal sector. The increased petrol and derv duties to be paid by business are simply consequential to the general increases.

(d) In the light of all this, it is remarkable that the Government have been able to relieve some specific pressure points:

(i) Interest Rates. 2-point reduction in MLR made possible only by anticipation of conditions resulting from tightening of fiscal policy. This precisely carries out the CBI's request for "lower interest rates consistent with appropriately firm monetary and fiscal policies." The CBI estimates (Press conference, 3 February) that each 1% off bank interest reduces the costs of industrial and commercial companies by £350 million.

(ii) Energy price reductions amounting to £118 million angled at situations where industrial consumers have been suffering price-disadvantages by comparison with overseas competitors.

(iii) Stock relief. The scheme to be legislated now is, as the CBI recommended, without a credit restriction and so more generous than that envisaged in November. [But: (i) estimates of effects have changed and the relief to business in 1981-82 (£180 million) is less than estimated in November; (ii) the CBI's proposal to allow multiple indices has not been accepted; (iii) full Corporation Tax review still to come.]

(iv) The increase in Industrial Buildings Allowance from 50% to 75%. This did not feature in the CBI's representations. But it will provide financial help to companies which invest, contributing to the maintenance and eventual recovery of investment programmes; and it will be some help to the construction industry.

(e) Numerous measures to encourage enterprise and assist small firms:
- increase in profit limits for "small companies" rate of corporation tax.
- Business Start-up Scheme
- Loan Guarantee Scheme
- Tax relief for interest borrowed for investment in partnership or industrial cooperatives.
- Extension of Venture Capital Scheme to include companies.
- Provision for companies to purchase own shares.
- Increase in VAT registration and deregistration thresholds.
- Enterprise campaign.

Estimated revenue cost of package £19 million in 1981-82 and £90 million in full year.

(f) Public Expenditure. Government agrees with CBI it should be cut, and agrees that there should be more emphasis on reducing current expenditure. This will be pursued in current year. New system of control will help to ensure that manpower squeezes are carried forward. Civil Service reduced by 35,000 (5%) and local authority (England and Wales) employment reduced by 37,000 (1½%) since government took office. Plan to achieve smallest post-war Civil Service (630,000) by 1984. But some expenditure dictated by recession; and political and other pressures for keeping expenditure up. CBI is contribution to this in proposal to remove delay in payment of RDGs; and to increase expenditure on infrastructure. Reasonable requests in themselves; but, equally, other requests seem reasonable to those who make them.

(g) Public service pay an important element in the total budgetary picture this year (even though an anticipated one). Very tough line taken in public service pay negotiations so far (but some worries about rest of public sector). CBI support welcome. Having to work out new approach so far as civil service pay is concerned. Useful to start thinking ahead towards next pay round when further substantial decleration will be required in private sector for sake of competitiveness, and in public sector for sake of PSBR and balance of taxation, etc.

5. The CBI will also expect to discuss the exchange rate in the light of their recommendations that the Government should (i) explicitly declare its intention to achieve a reduction in the rate and (ii) instruct the Bank of England to "sell sterling to the maximum extent compatible with appropriately firm monetary conditions". This, of course, goes far beyond present policy. We think the CBI are right rather belatedly to be giving such attention to the real exchange rate as at the root of many of industry's difficulties. But what to do about it is another matter. It does highlight the need to deal more decisively with industrial costs not just by easing the NIS (a once-for-all change which in any case could well leak into wages) but by continued deceleration in pay. The monetary expansion we have seen in the past, and which is contemplated in future, is quite rapid but has to be described as "tight" because of the incompatibility of pay and price behaviour withit.

6. It is important, especially in relation to the last point, that the dialogue with the CBI be kept going. Even though they may show some lack of realism, they are listened to - e g not only the Budget (see above) but also the Government's second thoughts on proposed sick-pay arrangements. The Chancellor has been holding occasional informal meetings between economic Ministers and the CBI leaders and these could be referred to at the meeting as the CBI leaders and a useful ongoing means of contact. They will, apart from anything else, be expecting to cover their medium-term discussion document "The will to win".

H M Treasury
13 March 1981

Annex A (i)

## SUMMARY

### Policy Objectives

* We support the objectives of Government policy - reduced inflation, better incentives through reduced taxation, lower government spending, and less government intervention in business.

* But the implementation of this policy has been extremely uneven and is placing an excessive burden of adjustment on trade and industry.

### Economic Situation and Prospects

There are serious imbalances in the economy which threaten our industrial and commercial base and provision for the future:

* While personal consumption has increased strongly investment has been heavily cut back;

* individuals in work have benefitted at the expense of companies and the increasing numbers out of work;

* government spending has continued to rise despite further cut backs in capital spending and purchases from the business sector generally;

* sterling has continued to strengthen despite our cost inflation being much faster than that of our overseas competitors;

* as a result, our international competitiveness has worsened sharply and the real profitability of companies has been severely reduced;

* manufacturing output is expected to decline by more between 1979 and 1981 than during the Great Depression between 1929 and 1931.

### Priorities

* It is vital to reduce business costs, and so help improve international competitiveness, profitability, investment, jobs and the prospects for inflation.

* This requires improved productivity, realism in pay settlements, a positive approach to exchange rate policy, and lower interest rates consistent with appropriately firm monetary and fiscal policies.

* It also requires that priority is given in this Budget to tax changes that reduce business costs.

ANNEX A (ii)

## RECOMMENDATIONS

We therefore recommend:

### Taxation

* National Insurance Surcharge should be cut by at least 2 points (from 3½% to 1½%) - at a cost of £1.0 billion in 1981/82 and £1.6 billion in a full year.
* Heavy oil duty should be abolished - at a cost of £0.3 billion in 1981/82 and in a full year.
* We also make recommendations about stock relief and measures regarding the flow of finance to smaller firms, the tax treatment of interest, and business rates. We urge further action on capital taxes in the forthcoming Budget. These recommendations would have negligible revenue implications in 1981/82.
* We recommend that the burden of Income Tax should not be increased - either by increasing the rates of tax or by failing to raise personal allowances and other thresholds to compensate for inflation.
* We do not recommend that the Government raise indirect rates.
* We draw attention to our past proposals on ACT.

### Government Spending

* Government spending must be contained. We welcome the Government's determination to achieve responsible pay settlements in their sector.
* Economies should be made in some areas - especially current spending - to make room for essential infrastructure investment and to avoid transferring costs to trade and industry.

### Monetary Policy

* These recommendations yield a central estimate of around £12 - 12½ billion for the 1981/82 PSBR, which would represent a tightening of the fiscal stance compared with 1980/81.
* They should be consistent with a limited growth in the money supply that would finance growth without fuelling inflationary pressures, and with further reductions in interest rates - which should be implemented as soon as possible.
* Monetary policy should pay more attention to what is happening in the "real economy".

### Exchange rate policy

The Government should implement a package of measures to reduce the exhange rate:

* an explicit declaration that they understand the need for a lower rate and will seek to achieve it;
* further reductions in interest rates and intervention in foreign exchange markets compatible with appropriately firm monetary conditions.

Triade – Problems.

£104 bi

Disappointment –

Analysis. – agreed.

Individuals much better off than companies.

∴ Correct? $\frac{2}{3}$

Agreed last changes on people.

500 M.L.R. →

Bankruptcies.

Unemployment.

= 450. Stock Relief –

= 120. Fuel =

Small business

Repn. a) Total effect – more early than to business.

Ind. buildings.

£2bi for business.

Net relief £500m to business.

Some help to reduce costs NI. – Heavy Oil duty.

Deep recession – getting deeper. £$13\frac{1}{2}$b – £15 bi

ANNEX B

National Insurance Surcharge

A reduction in the NIS was the main plank in the CBI's Budget representations this year. They asked for a substantial reduction (of least 2 percentage points) in its current rate of 3½%. The CBI emphasised that they were not seeking a selective reduction to help particular industries. They argue that the majority of the net revenue yield is raised from sectors of industry in "severe financial difficulties".

2. The NIS is a major revenue raiser and is expected to bring in about £3.8 billion (gross) in 1981/82. Assuming an October implementation date for a change announced in the Budget, a reduction of 2 percentage points would have cost about £700m in 1981/82 and £1700m in a full year.

3. Employers' NIS payments will increase automatically in 1981/82 in line with increased earnings and the higher NI earnings limits announced in November 1980. Overall, however, employers' NI payments (including NIS) are not expected to rise as much in 1981-82 as the general level of prices so that the real burden on employers should fall.

4. It is difficult to give precise estimates of the distribution of NIS payments. One fifth of the gross yield represents payments by local and central government (which do not benefit the PSBR). In general terms only about one third of the gross yield or two fifths of net yield is paid by manufacturing industry. The remainder is borne by a whole range of non-manufacturing activities - including service industries such as banks and insurance, public utilities and transport - which in general are much less exposed to international competition.

5. As the Secretary of State for Social Services announced on 12 February, legislation to introduce an Employers' Statutory Sick Pay Scheme has been postponed until next session.

6. National Insurance contributions and NIS together form a smaller proportion of total revenue in the UK than in many other countries. The burden on UK employers is lower than their major EC competitors even after allowance is made for private pension contributions.

ANNEX C

Heavy Fuel Oil Duty

1. The CBI pressed strongly before the Budget for the abolition of the duty on heavy fuel oil.

2. At £8 a tonne, the duty burden on UK industrial users is more than twice as high as anywhere else in the Community except Ireland. Nevertheless, the duty represents only about 8% of the final price.

3. The revenue cost of abolishing the duty on fuel oil would be about £150m in 1981/82. However, the PSBR (and resource) costs would be significantly higher. By 1982/83 these might amount in total to over £500m. Halving the duty would result in a PSBR cost in 1982/83 of about £220m, rising to some £360m in 1983/84.

4. The main reason the PSBR cost is so high is that the price the British Gas Corporation has to pay for gas from the Norwegian sector of the Frigg field varies inter alia, inversely with the level of the heavy fuel oil duty. This effect is not directly proportional but multiplies with the size of the reduction.

5. The Department of Energy have emphasised that the terms of the Frigg contract are commercially confidential and that public reference to them could damage goods relations with Norway at a delicate stage in negotiations on other gas purchases, in particular Statfjord.

6. The Chancellor has invited Mr Howell to put in hand an urgent assessment of the present contract and the likely costs and benefits of renegotiating it but agreed that no direct reference should be made to Frigg in the Budget debates.

7. The Budget statement (Cols 776(7) referred to "arrangements entered into some years ago for gas purchase" the overall effect of which would be "to put up the cost of gas purchased by the BGC and, with it, the UK's gas import bill.

8. All questions about gas purchases contracts are by agreement being taken by the Department of Energy. Their agreed line is as follows:

There are a number of contracts for the supply of gas to BGC in which the gas price is linked to the price of heavy fuel oil (including duty). Heavy fuel oil has, in fact, for many years, been taken as one of the price markers in commercial arrangements for the supply of fuels generally.

The linkage in gas contracts varies considerably from contract to contract. Overall the effect of a reduction in heavy fuel oil duty would be to increase the cost of gas purchased by BGC and, with it also, our gas import bill to the point where the wider national interest would not be served by reducing the duty. We have therefore concentrated on providing assistance to industry on energy prices directly in addition to measures already recently implemented such as restricting renewal prices for firm industrial contracts to some 70% of the related oil price; and tempering the price for new firm industrial contracts.

Ctb

1nd Pol

9 March,1981

Dear Sir Terence,

Thank you for your letter of 2 March and for the advance copy of "The Will to Win" which you enclosed with it.

I should be very glad to meet you and Sir Raymond Pennock to discuss the report: perhaps you could get in touch with Tim Lankester to arrange a convenient time for both of us.

Yours sincerely,

Margaret Thatcher

Sir Terence Beckett, CBE

Ctb.

**10 DOWNING STREET**

PRIME MINISTER

In submitting the CBI document "The Will to Win", Terence Beckett has asked if he and Ray Pennock could come to discuss it with you.

Even though the document is not very helpful, and will not - in my view - lead to very much, I do not think you can turn them down. But we would tell them that any meeting would be low-key, i.e. on the lines of the meetings you have had with them in the past. We should let the budget subside for a fortnight or so before setting up the meeting.

Assuming you agree with this, I attach a draft reply.

S. J. Pike

KPR

6 March, 1981

(ad Pol)

# CBI DISCUSSION PAPER ON THE WILL TO WIN

## Background

The CBI published their discussion paper which has the title 'The Will to Win' at noon on 5 March. This is a voluminous document which proposes 50 main action points for Government, Management and Unions (see list attached). At this stage the CBI say it is not a statement of CBI policy, but primarily a document for discussion with their own members. Many of the proposals which fall to Government are familiar (eg abolition of NIS, abolition of Heavy Oil duty, etc). The net cost of the "firm proposals" for net expansionary action is put at £1½ billion a year at 1981-82 prices for the four years ending in 1984-85.

## LINE TO TAKE

We very much welcome this discussion paper by the CBI on the changes which are needed during the period up to 1985 if British business is to play its full part in restoring prosperity. The paper contains 50 main action points for Government, Management and Unions and it would not be appropriate for the Government to comment in detail on these proposals until we have had time to study them and discuss them with the CBI.

HM Treasury
5 March 1981

SUPPLEMENTARIES

Q. WILL DOCUMENT BE DISCUSSED IN NEDC?

A. This is primarily a matter for the CBI. But, I feel sure that all Council members will want to study this document very carefully and bear in mind the views expressed in it.

Q. PROPOSALS REFLATIONARY?

A. The CBI proposals for action are intended to be phased over a period of four years and the House would not expect me to anticipate my right Hon. Friend's 1984 Budget any more than his 1981 Budget. However, any action which is taken by the Government would, of course, have to be consistent with our medium term financial strategy.

Q. ROLE OF GOVERNMENT?

A. We have often emphasised that there is no known way whereby the Government can secure the three key ingredients on which our future prosperity and full employment ultimately depend - that is rising productivity, adaptability to the wishes of the customer and healthy profitability. The achievement of these depends primarily upon two factors; the drive and skill of management on the one hand and those who represent employees on the other. In this connection I very much welcome the fact that the CBI recognise the key role management and unions have to play in restoring prosperity.

## FIFTY MAIN ACTION POINTS

| Subject | Action by (page) |
| --- | --- |
| **Chapter II - Competitiveness** | |
| Government cost control targets must equal those of industry | Government (23) |
| Systematic attention should be given to product planning | Management (24) |
| Attention must be paid to the importance of profit plans | Management (25) |
| Recruitment and training capacity must be maintained in order to ensure future skill supplies | Management (25) |
| Customer/supplier relations must be maintained and developed | Management (26) |
| Increased UK sourcing should be urgently considered | Management (26) |
| Positive attitudes to new technology need to be encouraged | Management, Government, Unions (27) |
| NIS should be reduced and ultimately abolished | Government (28) |
| Energy prices must not damage competitveness | Government (28) |
| The exchange rate must be reduced by implementing CBI package | Government (29) |
| ECGD should take a longer term view of its business | Government (30) |
| Support for overseas capital projects must be co-ordinated | Government (31) |
| **Chapter III - People** | |
| There must be closer contact between schools and industry | Management (33) |
| There must be better vocational preparation | Management, Government (33) |
| The apprenticeship system must be reformed | Management, Unions (34) |
| There must be more in-service training and retraining | Management, Unions (34) |
| Housing policy must be adapted to aid labour mobility | Government (34) |
| Companies should implement CBI guidelines for employee involvement | Management (35) |

| Subject | Action by (page) |
| --- | --- |
| Manpower requirements and policies must be subject to strategic examination and forward planning | Management (35) |
| Management should encourage harmonisation of staff and manual workers' employment conditions | Management (36) |
| Profit sharing and share incentive schemes should be developed | Management (36) |
| UK manning levels and plant utilization must equal the best | Management, Unions (37) |
| Restrictive labour practices must be eliminated | Management, Unions (37) |
| There must be greater support for agreed industrial relations procedures | Management, Unions (37) |
| Employees must be involved in improving efficiency | Management, Unions (37) |
| Pay determination must be reformed | Government, Unions, Management (38) |
| Workforces must be helped to understand the need to restore profitability and investment | Management, Unions (39) |
| Agreements should include a binding peace clause | Management, Unions (39) |
| Institutionalised pay comparabilities should be scrapped | Government (40) |
| Pay settlements in 1981/2 must be lower than in 1980/1 | Management, Unions (41) |
| **Chapter IV - Framework** | |
| Political consensus on industrial policy must be sought | Government (Opposition) (42) |
| Decisions must be made about the direction of industrial policy | Management (44) |
| Methods for leasing companies to help new technology and innovation | Government (45) |
| Advocates of UK withdrawal from EEC must be challenged | Management, Government (46) |
| Day-to-day decisions by nationalised industries should not be subject to interference | Government (47) |
| Practical solutions should be sought to the problems of the funding and financing of more capital expenditure of public enterprises | Government (47) |

| Subject | Action by page) |
|---|---|
| Fiscal action should be taken to help build and maintain the capital base of smaller firms | Government (48) |
| There should be a commitment to a 25 per cent basic rate and 50 per cent top rate of income tax | Government (48) |
| The Green Paper on Company Taxation should be published as soon as possible | Government (49) |
| Public service sector administrative economies must be made to achieve savings of at least £3 billion p.a. by 1984/85 | Government (51) |
| Public sector assets must be relised to produce at least £$\frac{1}{2}$ billion per annum up to 1985 | Government (51) |
| Investment in national infrastructure should be increased | Government (51) |
| Minimum standards should be specified for main duties laid on local authorities by statute | Government (52) |
| CBI proposals for protecting business from high cost of rates should be implemented | Government (53) |
| Local business rates liaison groups should be developed and extended | Management (53) |
| National borrowing should be funded more from the personal sector but avoid crowding business out | Government (54) |
| ITB costs must not be transferred to employers | Government (56) |
| An Economic Forum should be set up | Government, Management, Unions (57) |
| **Chapter V - Alleviating Unemployment** | |
| Opportunities for vocational preparation must be improved | Management, Government (60) |
| Flexible retirement should be explored | Management, Government (60) |
| Voluntary service and non-military national service should be encouraged | Government (60) |

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From
Sir Terence Beckett CBE
Director-General

CBI CONFEDERATION OF BRITISH INDUSTRY

2 March 1981

Dear Prime Minister,

As you know, we in the CBI have been putting our minds to what steps industry should take - and what support it needs - to ensure that we emerge stronger from the recession than when we went into it. I enclose a copy of the results which we have entitled 'The Will to Win - Britain must mean Business'. I believe you will find it worthwhile reading, despite the pressure on your time. The document is being published at noon on Thursday.

When you have had an opportunity to study it, the President, Sir Raymond Pennock, and I would be delighted to see you, at your convenience, to discuss what industry and Government can do together to follow up on some of the action points we list.

Yours sincerely,

Terry Beckett.

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Enc.

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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

2
Ind Pol.

CBI CONFEDERATION OF BRITISH INDUSTRY

Prime Minister

To see summary at Flag A -
very similar to last month's.

D Wolfson Esq
Chief of Staff
Prime Minister's Office
10 Downing Street
London SW1

27 February 1981

TL
27/2

Dear Mr Wolfson

February CBI Economic Situation Report

I enclose an advance copy of the end-February Economic Situation Report. Please note that this Report is embargoed until 0030 hours on Monday morning.

If you require any further information please contact me.

Yours sincerely

Charles Burton

C P H Burton
Deputy Head
Industrial Trends & Economic Forecasting Dept
Economic Directorate

Enc

Ind Pol.

cc. Master set

SUBJECT.

NOTE FOR THE RECORD

Sir Raymond Pennock and Sir Terence Beckett of the CBI called on the Prime Minister on Monday 2 February. Their main purpose was to outline the CBI's proposed medium term strategy for industry on which they would be publishing a document on 5 March. They had earlier sent over the attached summary which Sir Terence read out to the Prime Minister.

The following further points came up in discussion:

i) Sir Ray said that the CBI totally rejected the TUC's strategy for recovery, and they had already told the NEDC 6 this privately. Although the CBI might have some disagreements with the Government on the tightness of the present policies on the exchange rate, they were quite sure that the TUC spending proposals of £6 billion were "not on". As regards certain specific points in the TUC document, ~~their~~ TUC's opposition to overseas investment was unfounded - in that the low level of investment in the UK was due, not to lack of funds, but to lack of profitable investment opportunities. The Wilson Committee Report had confirmed this. The same argument applied against the TUC's proposal for a national investment bank. The TUC's proposal for work-sharing was also mistaken - because it ignored the fact that it was bound to put up industrial costs: it would be the equivalent of "giving productive capacity away to our competitors". The TUC were beginning to concede privately that competitiveness was important, but there was scarcely no reference to it in their document. The document also insisted that the Government must "sort everything out" - whereas the CBI were saying that this mainly had to be done by the trade unions, their members and management.

ii) Sir Ray referred briefly to the CBI's budget representations (a copy of which we have on the file). He said that they had had a useful meeting with the Chancellor the previous week.

/ The Prime Minister

The Prime Minister said that she had read their recommendations; she thought the PSBR which they were proposing for 1981/82 was perhaps too high.

iii) Sir Terence referred to the latest CBI trends survey. This showed that industry had not yet reached the bottom of the cycle. For example only 8 out of 44 companies were quoted as having reached the bottom of de-stocking. He said that he had recently been to the West country, where the industrial situation was very bad. There was much short-time working and for many firms export profitability had disappeared. More generally, the level of new investment and the level of profits had reached a dangerously low level. The main thrust of the CBI's medium term strategy was to reverse the investment and profits trend. Sir Ray said that many highly efficient companies were now being hit hard by the exchange rate. For example Sir Maurice Hodgson recently said that in some product lines, even if ICI paid their workforce nothing, they could no longer afford to export. In Sir Ray's view, an exchange rate of $2.15 would be about right. The Prime Minister said that when she had made the point about the exchange rate being a factor in any decision on MLR, she had had in mind the CBI's representations on this point.

iv) Sir Terence said that the CBI were appalled by Labour's apparent intention to withdraw from the EEC if they regained office. The CBI for their part had sent the Department of Trade a paper setting out the priorities for EEC action as they saw it.

v) On the nationalised industries, Sir Terence said that the CBI were going to propose in their strategy document a root and branch examination of them. They felt there should be a high-powered task force to look at all aspects of the nationalised industries; he felt this proposal would be politically attractive to the Government.

TL

5 February 1981

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From
Sir Raymond Pennock
President

2.

CBI CONFEDERATION OF BRITISH INDUSTRY

Prime Minister.

Sir Ray Pennock and Sir Terry Beckett are coming to see you on Monday of next week to talk about the CBI's paper on a medium term strategy. It will also provide a useful opportunity for a word about next Wednesday's meeting of the NEDC.

MW. 29.i.81

26th January 1981

Dear Clive,

I enclose a copy of the current outline to our Medium-Term Strategy document. We are planning for its publication on March 5th, and its component parts are at present being written here in Centre Point. It will be essentially a 'green paper' and as such will be processed through the CBI's consultative machinery with a view to it then becoming a policy document, with appropriate amendments on the way, about three months later.

One of Terry Beckett's major motives in proposing this initiative is to take some of the pressure away from the day-to-day arena, and encourage our members to be clearer about our general direction in the '80's. Next week at the meeting with the Prime Minister, he is proposing to highlight those specific areas which overlap with known Government policies, indicate the forecasts of economic growth, inflation, unemployment etc. on which our proposals are based, and tell the Prime Minister how we see further development of those radical changes in attitude which have been taking place in the country over the last few months. I expect this to take about a quarter of an hour and hope it will lead on to a helpful dialogue.

Perhaps we should open the discussion with our version of the constructive exchanges we had with the Chancellor last Friday about our Budget proposals, and outline the results of the latest quarterly CBI Industrial Trends Survey which comes out this week.

If you have any further thoughts about how the meeting should be structured, please let us know. Meanwhile, we are both looking forward very much to the meeting.

Yours sincerely,

Ray

C.A. Whitmore Esq.,
Principal Private Secretary to the Prime Minister,
10 Downing Street,
London, SW 1.

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Director-General
Sir Terence Beckett CBE

Secretary
Denis Jackson

CBI CONFEDERATION OF BRITISH INDUSTRY

## INTENDED STRUCTURE OF THE MEDIUM-TERM STRATEGY DISCUSSION DOCUMENT

The purpose of the document is to focus business, political and public attention on the radical changes that will be required to make Britain internationally competitive, reduce the level of unemployment and increase real living standards. The document will make clear the timescales involved, and the need both for urgent action on some issues and for consistent economic management over a number of years - certainly beyond the life of the present Parliament. The shape of the document is:

1 Foreword by the President.

2 Executive Summary by the Director-General - highlighting the main issues and recommendations.

3 Objectives.

4 Britain's opportunities and problems: the opportunities include exploitation of North Sea Oil and other resources; our existing market base; the skills, inventiveness and political stability of our people; and a government favouring personal incentives and enterprise. The problems include low productivity and profitability, high inflation, poor competitiveness, increasingly tough world conditions, disproportionate Government expenditure, excessive resistance to change and some divisive political and class attitudes.

The conclusion from an analysis of the prospects will be that we cannot continue the way we are going. Radical changes in performance are vital.

5 Strategic priorities:

a International Competitiveness - the role of the entrepreneur and responsibilities of management in product development, marketing, all other aspects of non-price competitiveness, cost control and general operational efficiency. The vital importance of embracing change, applying new technologies, improving profitability, raising productivity and encouraging investment.

We need these efforts to be supported by Government and EEC policies on - e.g. - controlling inflation and Government spending, energy pricing, tax and other costs borne by business, trade policy, interest rates and the exchange rate. Throughout, a major objective of Government must be to encourage competitiveness and wherever possible avoid adding to business costs.

b People - fundamental changes are needed in public attitudes to business and wealth creation. Throughout trade and industry attitudes must be changed. There must also be radical improvements in the management of people. This will require better communication and consultative arrangements to motivate people and get acceptance of change; a refusal to tolerate bad practice, whether in manning, quality or industrial discipline; effective planning and use of manpower resources; changes in training and preparation for work; and substantial reform of the pay determination system to avoid a resurgence of pay inflation, improve efficiency and permit the rebuilding of industrial profitability, investment and jobs.

c Changing attitudes and institutions: mobilising society to put business first. Without a thriving business sector, other national objectives cannot be achieved. We must have a better, enduring relationship between business and Government at all levels. We need a more constructive approach to EEC issues. We need a fresh look at some of our institutional arrangements including the role of law in industrial relations, the role of institutions such as the NEDC which can contribute to a coherent view of the industrial future, the tax and financial system and ways in which Government funds the PSBR, the groundrules for the nationalised industries, education and training and the climate in which new and smaller firms can prosper. Business has a major role to play in leading this re-examination of institutional arrangements and in developing a coherent industrial policy.

6 Getting Britain moving again:

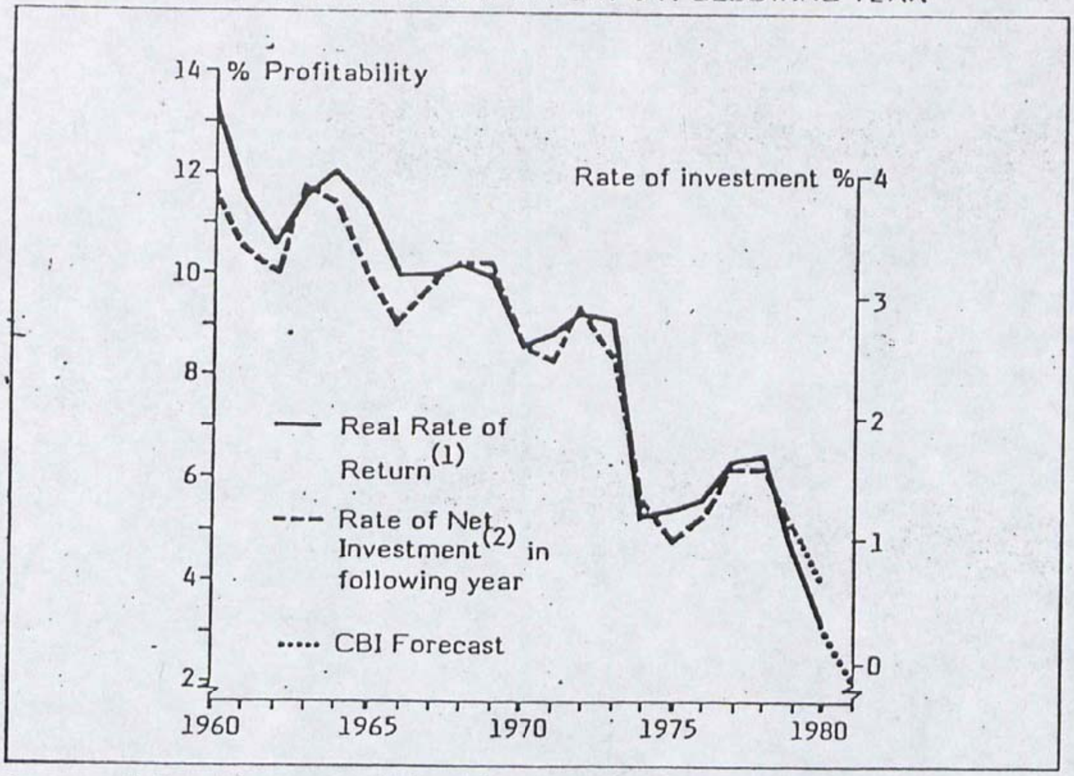
The need for action is urgent. We are currently in the midst of a severe recession. We have shown above where management must take the lead. Government has also got to strike the right balance in its fiscal and monetary policies to provide conditions in which prosperity can be restored without stoking inflation and creating supply bottlenecks. Its plans need to provide for essential investment in the industrial infrastructure and for the promotion of new technologies.

In the short term there will inevitably be a painful period of relatively high unemployment, and policies will be required from business and government to handle the social consequences in ways which do not damage the prospects for growth and recovery.

7 Conclusions:

Points for action.

PROFITABILITY AND RATE OF INVESTMENT IN FOLLOWING YEAR




Sources: National Income and Expenditure, various issues; and CSO direct.

Notes: Figures refer to industrial and commercial companies excluding North Sea activities; figures for 1980 and 1981 are CBI forecasts.

(1) Gross trading profits plus rent less stock appreciation less capital consumption at current replacement cost as a percentage of capital stock - net fixed capital stock at current replacement cost plus book value of stocks.

(2) As a percentage of the capital stock

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From
Sir Terence Beckett CBE
Director-General

CBI CONFEDERATION OF BRITISH INDUSTRY

12th January 1981

Dear Mr. Lankaster,

Thank you very much indeed for your letter of 18th December and for the two notes that were enclosed with it. These were certainly most interesting and I am grateful to you for forwarding them to me.

Yours sincerely,

Terry Beckett.

T.P. Lankaster Esq.,
10 Downing Street,
S.W. 1.

H8

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Vereker
Ind Pol

CC HMT
CBI-2011

10 DOWNING STREET

*From the Private Secretary* 18 December 1980

When you and Sir Raymond Pennock called on the Prime Minister on 12 November she promised to let you have some facts and figures on public spending and on price increases in the nationalised industries which the CBI might draw on - to help create a better climate for containing public expenditure and for improving efficiency in the nationalised industries. I now enclose two notes on these matters which I hope you will find useful.

T. P. LANKESTER

Sir Terence Beckett, C.B.E.

H8

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16th December 1980

T. Lankester Esq.
No. 10 Downing Street
LONDON
SW1

Dear Tim,

NI PRICE INCREASES AND PUBLIC EXPENDITURE CONTROL

When the Prime Minister met CBI leaders recently, she offered to send them a note containing facts and figures on public expenditure and on nationalised industries' price increases. Your letter to me of 13 November suggested that the CBI might be able to draw on these to help create a better climate for containing public expenditure and to put pressure on the nationalised industries for increased efficiency. I now attach two notes which we would be content for the Prime Minister to send to the CBI. I am sorry that this has taken a little time; we had in any case to wait for the 24 November statement, and as no suitable paper on nationalised industry prices was available we have had to prepare a new one for this purpose.

The note about public expenditure is relatively straightforward, and reflects the points made by the Prime Minister in discussion with the CBI. In trying to meet the Prime Minister's wishes on the nationalised industries we have had to look, not only at prices, but also at pay, productivity and costs to which price increases are of course closely linked. We have also thought it right to cover a span of years in order to avoid the distortions from looking at a short period to which special factors can always be held to apply.

The nationalised industries are a very mixed group comprising both labour and capital-intensive, manufacturing and non-manufacturing industries, and there are few generalisations that are valid for the group as a whole. Nevertheless, the note and the accompanying tables bring out the tendency towards rapid growth of employment costs in the nationalised sector which the labour-intensive group (e.g. posts, coal, rail) and BSC have so far been unable to offset by adequate productivity improvements.

Yours
John

A.J. WIGGINS
Private Secretary

cc CB1 20/1

PUBLIC EXPENDITURE: FACTS AND FIGURES

The public expenditure planning totals in the last White Paper (Cmnd 7439, January 1979) of the previous administration, and in the March 1980 White Paper (Cmnd 7841), were as follows:

| | £ million 1980 survey prices | | |
|---|---|---|---|
| | 1979-80 | 1980-81 | 1981-82 |
| Cmnd 7439 | 80,340 | 82,090 | 83,470 |
| Cmnd 7841 | 78,340 | 77,810 | 76,870 |
| Reductions | 2,000 | 4,280 | 6,600 |

2. As the Chancellor of the Exchequer said in his statement on 24 November, the recession has created upward pressures on expenditure. For example an increase of 100,000 in the unemployed (excluding school leavers, adult students, and the temporarily stopped) is estimated to increase benefit costs by around £110 million.* And the Chancellor announced certain other increases in expenditure in 1981-82 including a £620 million increase in the financing requirements of the nationalised industries, a £245 million increase in provision for special employment measures, and an extra £52 million for industrial support.

3. Nevertheless the shift away from the plans of the previous administration is being sustained. Current estimates of outturn in 1979-80 and 1980-81 suggest that in both years the reduction in the planning total in volume terms compared with the inherited plans will be over 3 per cent. The Government's aim for 1981-82 is to keep the planning total about 1% below the outturn now expected for 1980-81, i.e. some £5 billion below the level planned by the previous Government.

4. To achieve this aim for 1981-82, the Chancellor announced a range of reductions in order to offset part of the effect of the recession on public expenditure. These included a £200 million reduction in planned defence expenditure and a £66 million reduction in planned social security spending - the programmes showing the main increases between the change of Government and 1981-82. Local authority current expenditure, which was already planned to decline between 1979-80 and 1981-82, is being reduced further. The total reductions in programmes for 1981-82 amounted to over £1 billion, besides the

*All expenditure figures are at 1980 survey prices, i.e. broadly those of late 1979, except where otherwise stated.

EC refunds of £650 million agreed on 30 May 1980. The details are set out in the attached table.

5. The Clegg comparability awards, inherited from the previous Government, are estimated to cost some £1.6 billion in cash terms in a full year, and other staged comparability awards for civil servants, NHS and local authority employees cost in excess of £1 billion (cash) in a full year. Of this total, about £1½ billion falls on the local authorities' paybill. But having now met target commitments it is essential to the control of the cash cost of the public sector, and entirely fair, to look for a much slower growth in public service earnings. For 1981-2 the rate support grant cash limit will provide for a 6 per cent annual increase in earnings from due settlement dates in the current pay round. Expenditure in other parts of the public services will be subject to broadly the same financial disciplines.

6. Civil service manpower has been reduced from 732,000 when the Government took office to 697,000, and the aim is to reduce the number to about 630,000 by April 1984.

[TE]XT FOR CIRCULATION IN THE OFFICIAL REPORT

## SUMMARY OF PUBLIC EXPENDITURE POLICY DECISIONS

A. Volume

1. The changes in expenditure programmes for 1981-82 due to policy decisions since the March Public Expenditure White Paper (Cmnd 7841) are:

| | 1981-82 £m at 1980 Survey Prices (b) | |
|---|---|---|
| **Nationalised Industries** | | |
| Increases in EFLs (other than for British Steel) including revised provision for shortfall | | +620 |
| **Other policy increases** (a) | | |
| Special employment measures | +245 | |
| Industrial support | + 52 | |
| Industry (other) | + 10 | |
| Health (withdrawal of some proposals for new charges) | +121 | |
| Civil superannuation (accelerated retirement of civil servants) | + 64 | |
| Trade | + 21 | |
| | | +510 |
| **Other significant policy changes:** (a) | | |
| (i) Local Authority Current Expenditure (England) - reduction by about 3% instead of 2% from planned level for 1980-81 | -165 | |
| (ii) Further changes in Departmental programmes (excluding elements of local authority current expenditure included in (i)) | | |
| Agriculture Departments | - 36 | |
| Department of Employment | - 25 | |
| Department of Transport | - 21 | |
| Department of Environment (including PSA) | -158 | |
| Home Office | - 17 | |
| Department of Education and Science | - 52 | |
| Office of Arts & Libraries | - 10 | |
| Department of Health & Social Security (health) | - 25 | |
| (iii) Other Departments | | |
| Defence | -200 | |
| Foreign & Commonwealth Office | - 16 | |
| Export Credits Guarantee Department | -166 | |
| Department of Health & Social Security (social security) | - 66 | |
| Scotland, Wales and N. Ireland (including changes to local authority current expenditure in Scotland and Wales)(c) (about) | - 90 | |
| Other (about) | - 15 | |
| | | -1,060 |
| EC refund agreed on 30 May 1980 | | - 650 |

/ Footnotes - see next page

2. The changes take account of the salary savings expected in 1981-82 from the progressive reductions in Civil Service numbers to 630,000 by 1984.

3. The list does not include changes where the exact amount will be decided later eg British Steel and Child Benefit. Nor does it include the estimating adjustments, eg for demographic and economic factors, which will be made in the public expenditure White Paper to be published at the time of the Budget. The White Paper will include further details of the policy changes for 1981-82 and will set out the plans for 1982-83 and 1983-84.

4. The figures are in the prices used for the 1980 Public Expenditure Survey. "1980 Survey Prices" means for most expenditure broadly the prices of late 1979, which were some 18 per cent higher than the 1979 survey prices used in Cmnd 7841. For transfer payments (including overseas aid), 1980 survey prices are generally estimated average prices for 1979-80, ie about the same as those in Cmnd 7841, as a result of a change of definition since that White Paper.

B. Cash limits

5. Cash limits and Votes for expenditure other than pay will allow for an average level of prices in 1981-82 11% higher than the corresponding level in 1980-81.

6. The cash limits for the Rate Support Grant and for the Universities' Grant will include allowance for increases in earnings of 6% in annual settlements due before 1 August 1981, and also provisionally of the same amount for annual settlements due after that date. The allowance for pay in other cash limits, and Votes, will be so set that the pay of the relevant groups is dealt with broadly within the same financial disciplines. The outcome of settlements in particular cases will depend on the way in which the cash is allocated.

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(a) The increases and reductions shown include the net effect of various minor policy changes.

(b) Total changes are rounded to the nearest £5 million.

(c) The exact changes to Scotland, Wales and Northern Ireland programmes, in parallel with those to English programmes, will be given in due course

# NATIONALISED INDUSTRIES' PAY, PRODUCTIVITY, COSTS AND PRICES


Summary

Performance varies considerably from one nationalised industry to another, so broad generalisations can be misleading. Statistical trends depend heavily on the period chosen for comparison and therefore are difficult to interpret. This note nevertheless identifies some common factors in the industries' cost and price trends over the last decade, distinguishing between:-

a. Capital intensive industries with rising demand - gas, electricity and telecoms;

b. Labour intensive industries with static or falling demand - rail, posts and coal. The performance of British Steel, though it is a capital intensive industry, has been similar to that of this group.

2. In group a. industries and coal, employment costs per head have risen markedly faster than in the economy as a whole.

3. Increases in labour productivity have been faster in group a. industries and slower in group b. industries than in the economy as a whole. A number of favourable factors - such as capital intensity and therefore amenability to change and technical progress, and the fact that the number of employees has not had to be increased in step with rising demand - have contributed to the performance of group a. industries. It is not possible to say whether, given their 'natural advantages', these industries should have performed even better. Equally it is not possible to say how much of the poor productivity performance of the group b.industries can be attributed to their 'natural disadvantages'.

4. Nationalised industries with increasing unit labour costs have had real price increases over the past decade and industries with falling unit labour costs have had real price reductions. There are two exceptions. In the case of rail, changes in fares have been mainly determined by the level of Government subsidy for the passenger system. In the case of electricity, prices have mainly reflected the increase in fuel costs following the oil price increases; if fuel is excluded, real unit costs have fallen.

5. Although no published evidence exists yet for 1980/81, the indications are that the nationalised industries' prices are rising substantially faster than prices in general and that the industries' claim on the Exchequer will be high. The combination of factors bringing this about includes rising costs of all fuels, moves towards economic pricing in the energy industries, higher-than-average increases in employment costs and the effects of the recession in holding down the volume of sales.

A. EMPLOYMENT COSTS PER HEAD

'Employment costs' include not only wages and salaries but pension and National Insurance contributions and other benefits. These non-wage employment costs have tended to increase faster than wage costs over the past decade.



/TABLE 1

TABLE 1

The table below shows the percentages by which the growth rate of employment costs per head in each major nationalised industry has exceeded the average growth in employment costs per head in the economy as a whole.

Percentages by which the growth rate of employment costs per head have exceeded the corresponding growth rate for the economy as a whole

| Industry | 1970/1 to 1979/80 | 1970/1 to 1975/6 | 1975/6 to 1978/9 | 1978/9 to 1979/80 |
|---|---|---|---|---|
| National Coal Board | +30 | +27 | + 1 | + 2 |
| British Gas | +25 | +14 | + 4 | + 7 |
| Electricity Supply | +12 | + 6 | - 1 | + 7 |
| British Telecom | +11 | +20 | -10 | + 1 |
| Post Office(Posts) | + 5 | +20 | -15 | 0 |
| British Steel | + 4 | +15 | - 4 | - 7 |
| British Rail | + 1 | + 8 | - 6 | + 1 |

This information is drawn from Tables 1 and 1A of the Annex. Interpretation has to be heavily qualified by the problem of choosing a common base date which gives a fair comparison of the underlying trend, eg miners' relative pay fell throughout the 1960's as the coal industry contracted, so the starting position for miners' earnings in 1970 is rather low relative to a longer run trend. Moreover these figures make no adjustment for changes in the composition of the labour force.

The main features which emerge from these statistics for the decade as a whole:-

i. Employment costs per head have risen faster than the average for the whole economy in all industries, and much faster in the energy and telecommunications industries;

ii. Most of this 'excess growth' in employment costs per head occurred in the period 1970/1 to 1975/6. By contrast, in the subsequent three years, during which an incomes policy was in operation, employment costs in most industries rose more slowly than average. But since 1978/9 there has been a tendency for the earlier trend to reappear;

iii. There is as yet no published evidence relating to 1980/1 but early indications from the industries suggest that employment costs per head will rise by between 20% and 30% in most industries. This is largely attributable to the staging effects of the 1978/9 pay settlements and to the large size of settlements in 1979/80.

## B. EMPLOYMENT COSTS PER HEAD, PRODUCTIVITY AND LABOUR COSTS PER UNIT OF OUTPUT

'Excess' growth in employment costs per head does not result in 'excess' growth in unit labour costs if it can be offset by rapid growth in labour productivity. Some of the nationalised industries have achieved very fast growth in output per employee, in most cases because they are capital intensive or because, being network industries, they can meet extra demand within their network without a proportionate increase in labour.

The table below shows the growth in employment costs per head (from Table 1), productivity and unit labour costs over the period 1970/1 to 1979/80 in excess of the average for the whole economy.

/TABLE 2

TABLE 2

Rate of growth in employment costs per head, productivity and unit labour costs in excess of whole economy average*

| Industry | 'Excess' growth of Employment costs per head | 'Excess' growth of labour productivity | 'Excess' growth of unit labour costs |
|---|---|---|---|
| National Coal Bd | +30% | -12% | +48% |
| British Gas | +25% | +155% | -51% |
| Elecy Supply | +12% | +17% | - 5% |
| British Telecoms | +11% | +51% | -27% |
| P.O. (Posts) | + 5% | -18% | +28% |
| British Steel | + 4% | -31% | +51% |
| British Rail | + 1% | - 8% | + 9% |

Source: Tables 1, 1A, 2, 2A, 3, 3A of the Annex.

The main features of the table are:-

i. The more capital intensive industries - gas, electricity, telecoms (but not steel) - have had a faster rate of growth of output per head than the average for the UK economy. The gas and telecoms industries in particular have faced a marked increase in demand, the gas industry benefiting from the switch to cheap natural gas and telecoms from the increase in the proportion of households having a telephone. Employment in the gas industry actually declined over this period and in the telecoms industry rose only slightly; in both cases this reflected the fact that labour use is related more to changes in the size or nature of the system (conversion to natural gas, new telephone connections) than to the actual throughput of the system.



*The figures do not add across. The relationship is such that 1 + growth in employment cost per head = (1 + growth in productivity) (1 + growth in unit labour costs)

ii. The other industries - coal, steel, posts and rail - have had a lower productivity performance than average and ~~so~~ their unit labour costs have risen more than in the economy as a whole. To some extent their problems have been the reverse of those mentioned above, eg a decline in the letter post does not imply a proportional reduction i n postal manpower since the configuration of collections and deliveries is largely unchanged. It has been more difficult to achieve labour productivity improvements in these labour intensive industries (coal, rail, posts) than in more capital intensive ones.

iii. In 1980/1 most nationalised industries have suffered from the recession. Demand has been cut back and manpower has not been proportionately reduced so, for most industries, productivity will have fallen.

C. UNIT LABOUR COSTS AND PRICES

The relationship between the rate of growth of unit labour costs and the rate of increase in prices varies from one nationalised industry to another, depending on -

(1) The proportion of costs which are labour. Clearly labour costs are a less significant proportion of costs in group a. than in group b. industries;

(2) The growth of unit costs;

(3) The extent to which the industries' profit requirements or subsidy levels change.

Table 3 shows the sort of picture which emerges when unit labour costs and revenues are compared (unit labour costs being calculated relative to the national average and unit revenues relative to the GDP deflator).

TABLE 3

Growth in unit labour costs and unit revenues relative to the average for the economy as a whole 1970/1 to 1979/80

| | 'Excess' Labour Cost per unit of output % | 'Excess' Revenue per unit of output % |
|---|---|---|
| National Coal Board | + 48 | + 54 |
| British Gas | - 51 | - 43 |
| Electricity Supply | - 5 | + 11 |
| British Telecom | - 27 | - 23 |
| P.O. (Posts) | + 28 | + 47 |
| British Steel | + 51 | + 25 |
| British Rail | + 9 | - 7 |

SOURCE: Tables 3 and 5.

The main features of Table 3:-

i. In the case of the NCB, above average increases in unit labour costs have accompanied above average coal price increases which have reflected the increase in oil prices;

ii. The rapid rise since 1974 in world energy prices led by oil has been a major factor causing electricity prices to rise in real terms and indirectly affecting the demand, costs and prices of other fuels; the rise in natural gas prices is only now beginning to come through;

iii. The prices of gas and telecommunications services have not risen nearly as fast as the national average. In both cases rapid expansion and a big programme of capital investment have helped to keep increases in unit labour costs considerably below the national average;

iv. In the case of posts, increased profit requirements have caused prices to rise even faster than unit labour costs, both being calculated relative to the national average; by contrast in the case of rail, higher subsidies have enabled price increases to be kept down;

v. British Steel has had great difficulty in passing on increases in their labour and operating costs into prices because of competitive pressures from abroad. But the gap between costs and prices has been filled by higher levels of Exchequer finance.

In 1980/81, likely increases in real unit labour costs and in the costs of all fuels imply price increases above the general rate of inflation for most industries unless the Government agrees that profits be reduced or subsidies increased. Particularly big price increases in the case of gas and electricity mainly represent moves towards economic pricing. The increase in gas prices, however, has to be set against the experience of the past decade, over which gas prices were halved in real terms. All the industries are finding that their unit costs are being increased by the effect of the recession in holding down the volume of sales.

12.12.80

NOTES ON TABLES

OUTPUT MEASURES

| | |
|---|---|
| POSTS | Total correspondence posted (excludes parcels) |
| TELECOMS | Total number of telephone calls |
| BRITISH RAIL | Revenue weighted average passenger miles plus net tonne-miles |
| COAL | Saleable output (coal mining) in m.tonnes |
| GAS | Gas sold (therms) |
| ELECY. SUPPLY INDY. (Eng.& Wales) | Supplies to customers (England and Wales) in Kwh. |
| STEEL | Liquid steel production in m.tonnes. |

EMPLOYMENT

Where possible on a full time equivalent basis.

Sources

-Industries' reports and accounts

-National Income Blue Book

-Department of Employment Gazette

TABLE 1 EMPLOYMENT COSTS PER EMPLOYEE (NI cf WHOLE ECONOMY)

| | POSTS | T/COMMS | RAIL | COAL | GAS | ELEC | STEEL |
|---|---|---|---|---|---|---|---|
| 70/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 71/2 | 108.5 | 106.0 | 96.6 | 91.1 | 103.9 | 105.1 | 98.8 |
| 72/3 | 111.3 | 113.1 | 102.0 | 106.9 | 103.5 | 105.0 | 102.8 |
| 73/4 | 118.7 | 114.1 | 101.7 | 99.7 | 107.3 | 102.8 | 104.5 |
| 74/5 | 116.6 | 115.6 | 99.3 | 120.6 | 106.3 | 101.7 | 102.5 |
| 75/6 | 119.8 | 120.1 | 107.9 | 127.2 | 114.4 | 106.2 | 114.5 |
| 76/7 | 114.1 | 119.7 | 107.2 | 122.3 | 115.8 | 104.7 | 113.2 |
| 77/8 | 112.8 | 117.3 | 104.9 | 121.5 | 122.5 | 101.4 | 114.7 |
| 78/9 | 105.4 | 109.5 | 102.2 | 128.1 | 118.5 | 105.2 | 111.4 |
| 79/80 | 104.9 | 110.5 | 100.6 | 130.4 | 124.6 | 111.5 | 103.8 |

TABLE 1A EMPLOYMENT COSTS PER EMPLOYEE

| | POSTS | T/COMMS | RAIL* | COAL | GAS | ELEC | STEEL | WHOLE ECONOMY |
|---|---|---|---|---|---|---|---|---|
| 70/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 71/2 | 122.5 | 119.7 | 109.1 | 102.8 | 117.3 | 118.7 | 111.5 | 112.9 |
| 72/3 | 141.6 | 143.9 | 129.8 | 136.0 | 131.6 | 133.5 | 130.7 | 127.2 |
| 73/4 | 170.8 | 164.2 | 146.4 | 143.5 | 154.4 | 147.9 | 150.3 | 143.9 |
| 74/5 | 212.6 | 210.8 | 181.1 | 219.9 | 193.9 | 185.5 | 186.9 | 182.4 |
| 75/6 | 274.7 | 275.4 | 247.5 | 291.7 | 262.4 | 243.6 | 262.7 | 229.4 |
| 76/7 | 299.3 | 314.0 | 281.1 | 320.7 | 303.6 | 274.5 | 296.8 | 262.3 |
| 77/8 | 330.6 | 343.7 | 307.4 | 356.1 | 358.9 | 297.0 | 336.2 | 293.0 |
| 78/9 | 354.0 | 367.8 | 343.4 | 430.4 | 398.0 | 353.4 | 374.11 | 335.9 |
| 79/80 | 404.1 | 425.5 | 387.5 | 502.1 | 479.8 | 429.3 | 400.0 | 385.2 |

*Calendar year

TABLE 2 : OUTPUT PER EMPLOYEE (NI cf WHOLE ECONOMY)

| | Posts | T/Comms | Rail | Coal | Gas | Electricity | Steel |
|---|---|---|---|---|---|---|---|
| 1970/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1971/2 | 98.8 | 106.9 | 93.2 | 82.9 | 131.6 | 103.9 | 87.0 |
| 1972/3 | 97.0 | 112.0 | 88.2 | 97.5 | 167.7 | 109.5 | 98.4 |
| 1973/4 | 100.0 | 121.5 | 95.3 | 78.3 | 195.2 | 109.3 | 92.4 |
| 1974/5 | 95.1 | 127.4 | 94.0 | 94.3 | 218.8 | 112.8 | 81.0 |
| 1975/6 | 89.2 | 136.7 | 94.6 | 94.1 | 233.2 | 114.1 | 73.6 |
| 1976/7 | 82.8 | 141.6 | 90.4 | 88.7 | 234.8 | 119.5 | 76.4 |
| 1977/8 | 83.5 | 144.2 | 91.6 | 77.9 | 252.9 | 117.1 | 74.9 |
| 1978/9 | 83.0 | 151.2 | 91.4 | 87.9 | 249.0 | 117.7 | 76.3 |
| 1979/80 | 82.0 | 151.4 | 92.2 | 88.1 | 255.5 | 117.1 | 68.8 |

TABLE 2A : OUTPUT PER EMPLOYEE

| | Posts | T/Comms | Rail | Coal | Gas | Electricity | Steel | Whole economy |
|---|---|---|---|---|---|---|---|---|
| 1970/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1971/2 | 102.7 | 111.2 | 96.9 | 86.2 | 136.9 | 108.1 | 90.5 | 104.0 |
| 1972/3 | 105.6 | 122.0 | 96.1 | 106.2 | 182.6 | 119.2 | 107.2 | 108.9 |
| 1973/4 | 109.3 | 132.8 | 104.2 | 85.6 | 213.3 | 119.5 | 101.0 | 109.3 |
| 1974/5 | 103.5 | 138.6 | 102.3 | 102.6 | 238.1 | 122.7 | 88.1 | 108.8 |
| 1975/6 | 95.9 | 147.0 | 101.7 | 101.2 | 250.7 | 122.6 | 79.1 | 107.5 |
| 1976/7 | 92.7 | 158.4 | 101.1 | 99.2 | 262.7 | 128.8 | 91.7 | 111.9 |
| 1977/8 | 95.3 | 164.7 | 104.6 | 88.9 | 288.8 | 133.7 | 85.5 | 114.2 |
| 1978/9 | 97.8 | 178.2 | 107.2 | 103.6 | 293.6 | 138.8 | 89.9 | 117.9 |
| 1979/80 | 97.6 | 180.2 | 109.7 | 104.8 | 304.0 | 139.3 | 81.9 | 119.0 |

TABLE 3 : EMPLOYMENT COSTS PER UNIT OF OUTPUT (NI of WHOLE ECONOMY)

| | Posts | T/Comms | Rail | Coal | Gas | Electricity | Steel |
|---|---|---|---|---|---|---|---|
| 1970/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1971/2 | 110.0 | 99.3 | 103.4 | 110.0 | 79.0 | 101.2 | 113.6 |
| 1972/3 | 114.9 | 101.0 | 115.6 | 109.7 | 61.6 | 95.8 | 104.5 |
| 1973/4 | 118.8 | 94.0 | 106.8 | 127.3 | 55.0 | 93.9 | 113.1 |
| 1974/5 | 122.7 | 90.8 | 105.6 | 127.9 | 48.6 | 90.2 | 126.6 |
| 1975/6 | 134.3 | 88.0 | 114.2 | 135.1 | 49.2 | 93.1 | 155.6 |
| 1976/7 | 137.8 | 84.6 | 118.5 | 137.9 | 49.4 | 90.8 | 138.0 |
| 1977/8 | 135.4 | 81.4 | 114.6 | 139.1 | 48.5 | 86.6 | 153.3 |
| 1978/9 | 126.7 | 72.3 | 111.6 | 145.4 | 47.5 | 89.2 | 145.5 |
| 1979/80 | 127.9 | 72.9 | 109.2 | 148.0 | 48.8 | 95.2 | 150.7 |

TABLE 3A

EMPLOYMENT COSTS PER UNIT OF OUTPUT

| | Posts | T/Comms | Rail | Coal | Gas | Elec | Steel | Whole Economy |
|---|---|---|---|---|---|---|---|---|
| 70/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 71/2 | 119.3 | 107.7 | 112.6 | 119.3 | 85.7 | 109.8 | 123.2 | 108.5 |
| 72/3 | 134.2 | 118.0 | 135.0 | 128.1 | 72.0 | 11.9 | 122.0 | 116.8 |
| 73/4 | 156.4 | 123.8 | 140.6 | 167.6 | 72.4 | 123.7 | 148.9 | 131.7 |
| 74/5 | 205.6 | 152.2 | 177.0 | 214.3 | 81.5 | 157.2 | 212.1 | 167.6 |
| 75/6 | 286.5 | 187.8 | 243.6 | 288.4 | 104.9 | 198.7 | 332.0 | 213.4 |
| 76/7 | 323.2 | 198.3 | 277.9 | 323.4 | 115.8 | 213.0 | 323.7 | 234.5 |
| 77/8 | 347.3 | 208.8 | 294.0 | 356.9 | 124.5 | 222.1 | 393.3 | 256.5 |
| 78/9 | 362.0 | 206.5 | 318.9 | 415.5 | 135.8 | 254.8 | 415.8 | 285.7 |
| 79/80 | 414.0 | 236.2 | 353.6 | 479.3 | 158.1 | 308.2 | 488.0 | 323.8 |

TABLE 4 TRADING COSTS (EXCLUDING DEPRECIATION) PER UNIT OF OUTPUT (NI cf WHOLE ECONOMY)

| | POSTS | T/COMMS | RAIL | COAL | GAS | ELEC. | STEEL |
|---|---|---|---|---|---|---|---|
| 1970/71 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1971/72 | 104.9 | 95.9 | 104.1 | 121.5 | 73.4 | 98.9 | 100.2 |
| 1972/73 | 106.7 | 93.0 | 106.2 | 112.8 | 59.1 | 91.3 | 86.4 |
| 1973/74 | 110.7 | 94.7 | 103.9 | 137.5 | 54.4 | 98.9 | 103.2 |
| 1974/75 | 117.8 | 94.0 | 110.9 | 140.3 | 49.3 | 119.0 | 118.3 |
| 1975/76 | 130.1 | 96.4 | 125.1 | 151.1 | 49.7 | 123.0 | 137.5 |
| 1976/77 | 130.4 | 94.8 | 126.2 | 157.9 | 48.9 | 127.0 | 127.9 |
| 1977/78 | 126.3 | 91.5 | 125.1 | 163.4 | 53.6 | 129.6 | 141.9 |
| 1978/79 | 120.4 | 81.4 | 125.1 | 167.3 | 60.0 | 129.1 | 135.0 |
| 1979/80 | 113.7 | 82.3 | 120.5 | 168.7 | 59.5 | 135.5 | 147.8 |

TABLE 5 REVENUE PER UNIT OF OUTPUT (NI cf WHOLE ECONOMY)

| | POSTS | T/COMMS | RAIL | COAL | GAS | ELEC | STEEL |
|---|---|---|---|---|---|---|---|
| 70/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 71/2 | 122.0 | 90.5 | 99.9 | 90.0 | 78.1 | 99.5 | 96.8 |
| 72/3 | 118.3 | 84.0 | 94.7 | 94.7 | 64.5 | 92.4 | 86.5 |
| 73/4 | 120.9 | 85.8 | 90.6 | 102.4 | 57.4 | 89.5 | 105.2 |
| 74/5 | 122.9 | 85.5 | 79.9 | 125.1 | 52.1 | 97.1 | 121.5 |
| 75/6 | 153.8 | 92.7 | 84.0 | 126.9 | 52.3 | 108.4 | 123.7 |
| 76/7 | 158.6 | 93.6 | 93.6 | 143.5 | 56.1 | 112.6 | 124.2 |
| 77/8 | 155.3 | 92.2 | 96.5 | 144.9 | 59.1 | 114.4 | 136.2 |
| 78/9 | 146.8 | 84.1 | 98.5 | 142.2 | 59.4 | 113.4 | 124.1 |
| 79/80 | 146.7 | 76.9 | 93.0 | 154.1 | 57.3 | 111.1 | 124.7 |

TABLE 5A REVENUE PER UNIT OF OUTPUT

| | Posts | T/Comms | Rail | Coal | Gas | Elec | Steel | Whole Economy |
|---|---|---|---|---|---|---|---|---|
| 70/1 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 71/2 | 135.5 | 100.5 | 111.0 | 110.0 | 86.8 | 110.5 | 107.6 | 111.1 |
| 72/3 | 143.8 | 102.2 | 115.1 | 115.2 | 78.4 | 112.3 | 105.2 | 121.6 |
| 73/4 | 158.7 | 112.6 | 119.0 | 134.5 | 75.4 | 117.5 | 138.1 | 131.3 |
| 74/5 | 196.5 | 136.7 | 127.8 | 200.0 | 83.3 | 155.3 | 194.2 | 159.9 |
| 75/6 | 304.9 | 183.9 | 166.5 | 251.6 | 103.8 | 214.9 | 245.3 | 198.3 |
| 76/7 | 354.7 | 209.4 | 209.4 | 321.0 | 125.5 | 252.0 | 278.0 | 223.7 |
| 77/8 | 387.2 | 230.0 | 240.6 | 361.5 | 147.5 | 285.2 | 339.7 | 249.4 |
| 78/9 | 402.5 | 230.7 | 270.2 | 389.8 | 162.9 | 311.0 | 340.2 | 274.2 |
| 79/80 | 463.9 | 243.3 | 294.2 | 487.4 | 181.2 | 351.3 | 394.2 | 316.2 |

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**From the President**
**Sir Raymond Pennock**

CBI
CONFEDERATION OF BRITISH INDUSTRY

Personal

9th December 1980

Dear Clive,

I was most grateful to receive the note of our discussion with the Prime Minister on Wednesday 12th November in response to our request. We have not in fact recorded a note of the discussion from this end and, unless you specifically request it, would not at the moment be seeking to do so.

I am looking forward to our lunch date which should provide the opportunity to discuss this and other matters.

Yours sincerely,

Ray

Clive Whitmore Esq.,
Principal Private Secretary to The Prime Minister,
10 Downing Street,
London, SW 1.

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Jun

21 November 1980

You asked me to let you have a copy of our record of the meeting which you and Terry Beckett had with the Prime Minister on Wednesday, 12 November 1980. This is attached.

C. A. WHITMORE

KRP

Sir Ray Pennock

NOTE FOR THE FILE

A copy of the record of the Prime Minister's meeting with Sir Ray Pennock and Sir Terence Beckett on 12 November 1980 has been sent today to Sir Ray Pennock at his request. This was the same as the full record, subject to the deletion of the last sentence of the first paragraph and of the fourth sentence of the second paragraph on page 3.

CAW

21 November 1980

jre DS

bc CO
CSD.
PGO
Mr Hoskyns
~~Mr Ingham~~
Mr Wolfson.
Mr Vereker

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RESTRICTED

10 DOWNING STREET

*From the Private Secretary*

13 November 1980

Dear Tim,

I enclose the record of the Prime Minister's meeting yesterday with Sir Ray Pennock and Sir Terence Beckett. You will see that at the end of the meeting the Prime Minister offered to send Sir Terence some facts and figures on public spending and on nationalised industry price increases. I think the Prime Minister had in mind that the CBI could draw on these to help create a better climate for containing public expenditure and to put pressure on the nationalised industries to improve their efficiency. I would be grateful if you could prepare a suitable note which the Prime Minister could send.

I am sending a copy of this letter and the enclosure to Ian Ellison (Department of Industry), Richard Dykes (Department of Employment) and Julian West (Department of Energy).

Yours ever,

Tim Lankester.

John Wiggins, Esq.,
H.M. Treasury.

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SUBJECT

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RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND SIR RAY PENNOCK AND SIR TERENCE BECKETT AT 10 DOWNING STREET AT 1145 HOURS ON WEDNESDAY 12 NOVEMBER 1980

Present:

| | |
|---|---|
| Prime Minister | Sir Ray Pennock, President:CBI |
| Mr. David Wolfson | Sir Terence Beckett, Director-General: CBI |
| Mr. Clive Whitmore | |
| Mr. Tim Lankester | |

Economic Policy and Industrial Situation

Sir Ray Pennock first reported briefly on the CBI Conference in Brighton. On the first day, there had been a discussion on the economic situation, overseas trade and industrial change; and this had been followed on the second day by a discussion on industrial relations and the Employment Act. The main impression of the Conference was the overwhelming support for the resolution on interest rates and the exchange rate. Both these factors were at the forefront of CBI members' minds. The Conference had supported the Government's basic aims - to bring down inflation and public expenditure; and members were pleased with the decision that had been taken on the 6% pay assumption for the Rate Support Grant. But they questioned whether the Government fully understood the gravity of the industrial situation: the latest CBI survey showed that more than 80% of companies' order books were below normal. Good companies were going out of business, and export volumes were beginning to fall and export profitability was vanishing.

Sir Terence Beckett said that he had taken on the job of Director-General because he was concerned about the future of British industry: he had given up a much more comfortable existence at Ford. He was determined to help industry get back to prosperity. He had completed seven visits to the regions just before the Conference, and had talked to the CBI Regional Councils and also - where they existed - small firms' councils. The impression he had obtained from these visits was that, while CBI members were not panicking,

/they

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they were finding the speed of adjustment that was required of them too difficult; and they felt that the Government's general approach to industry was proving very destructive. In industry after industry domestic demand had collapsed between the first and second quarters of 1980. There was intense criticism of Government, particularly on the public expenditure front; and the feeling that the private sector was having to bear the brunt of the recession. There were also individual complaints about Government induced price increases - particularly in the energy field. Companies recognised that some of their troubles were self-inflicted because of the excessive pay increases of the last two years; but many of them also felt that the Government was to blame for their difficulties. All too often they seemed to be closing whole plants rather than improving efficiency and keeping them open. A more gradual approach on the Government's part would be more likely to lead to improved efficiency rather than closures. Industry also needed hope. New investment and expenditure on R&D was quite inadequate, and would continue to be so unless industry could see better prospects ahead. But when the real rate of return in industry had fallen to an all time low of 3%, it was easy to see why firms were not investing in the future.

Sir Terence went on to say that he was developing a medium term strategy for industry which would complement the Government's monetary strategy. All of the economicforecasting models were showing sharply rising unemployment over the next few years. This was partly because of North Sea Oil and the exchange rate, partly because of the deflation needed to get inflation down, and partly because they all assumed that our poor industrial performance would continue into the future. The crucial need was to invalidate this last assumption, and this would require major institutional changes. In the 19th century, Britain had had the institutions which had enabled rapid change to take place; now, our institutions had become fossilized and prevented change. His strategy would be calling for institutional changes in six major areas, of which one of the most important concerned the relationship between Government and nationalised industries. At present he had no specific proposals to make; rather he was proposing that the problems be studied by the best people available and solutions produced. He also felt it was time this country started picking winners again. There were plenty

/of

of examples of bad investment decisions: what was needed now were good decisions so that we used North Sea Oil to build up new industries to replace those in decline.

The Prime Minister said that industry's problems were to a large extent due to the world recession, and this was nothing to do with the Government;but the high exchange rate had also certainly been a factor. Sterling had risen faster than anyone could have expected, and it was causing real adjustment problems. But the influence the Government could have over the exchange rate was strictly limited. There was no fixed relationship between it and interest rates; moreover, industry would suffer if the rate were to plummet. Nonetheless, the Government were determined to get interest rates down as soon as possible - to give hope to industry if nothing else. But there could be no real alternative to industry adjusting to the new petro-currency situation. She was surprised that Sir Terence had implied that the Government were moving too quickly. Inflation had come down because of the tight monetary policy of last winter and because of the high exchange rate, but now monetary growth was running at an annual rate of about 19%. (Sir Terence interjected that his members in the regions did not understand what M3 meant; to which the Prime Minister retorted that they surely understood what "printing money" meant.)

The Prime Minister went on to say that she was very concerned about public expenditure. Expenditure was going up in three principal areas: defence, nationalised industries and social security. Nationalised industries were also putting up prices, and she thought CBI members could do more to criticize and bring out in the open nationalised industry inefficiency. She was also frankly amazed at Sir Michael Edwardes' comments at the Conference: he ought to at least recognise that BL were a huge drain on the Exchequer. Without the nationalised industry problem, interest rates would come down: they were a haemorrhage on the private sector. The Government had to try to bring greater financial discipline to bear on them; but they were riddled with restrictive practices and overmanning, and the only real answer was to get rid of their monopoly position. This was already being done in the case of telecommunications. As for social security, there was a

/legitimate

legitimate argument that, when industry was in difficulty, retirement pensions and other benefits should not continue to be indexed.

Interest Rates

Sir Terence Beckett then said that, in the CBI's view, MLR could be reduced by four percentage points. This view was supported by many City experts, who doubted whether a much lower MLR would significantly increase the money supply - and some had argued that it would actually reduce it. Many companies would borrow less; four points off MLR would directly reduce companies' costs by £1 billion per annum. Borrowing would be further reduced because cash flow would be improved as a result of a lower pound. Public debt service would be lower, and this would reduce the PSBR by as much as £1 billion in a full year. In the view of many gilt brokers, adequate quantities of gilts could still be sold provided Government was still seen as committed to reducing inflation. Finally, the real rate of interest was now substantially positive: over the last four months the RPI had risen at an annual rate of 8%, while interest on bank overdrafts was 17-19%.

The Prime Minister said she was distressed that the CBI were asking for as large a reduction as 4%. In present circumstances, this would simply cause an explosion of the money supply because the authorities would be unable to sell sufficient quantities of gilts. While there were strong industrial arguments for lower interest rates and she was all in favour of getting them down as soon as possible, the decision on when and by how much had to be taken in a much broader context than the CBI were apparently prepared to consider.

Exchange Rate

Sir Terence said that there was no way in which industry could support the current value of the pound. He understood that there was no simple solution to getting it down, but he did think that something could be achieved not only by lower interest rates but by Ministers

/putting

putting over the message that - at the current level of sterling - industry was quite uncompetitive. He had been disappointed by the reference to the exchange rate in the Chancellor's Mansion House speech: a stronger statement might have brought the rate down. Unless this happened, industries would be destroyed and investment would not recover. The Government had to understand that, even at its peak, oil would only represent some 7% of GNP, and that the economy would still depend very largely on manufacturing industry. The Prime Minister repeated that there was little the Government could do to influence the exchange rate; she also pointed out that some parts of industry had benefitted from the high rate.

National Insurance Surcharge

Sir Terence said that the CBI wanted the NIS abolished. This was essentially a tax on employment, and it would be much better to raise the equivalent revenue by taxing tobacco and alcohol. The Prime Minister responded that the Chancellor would almost certainly have to raise taxes on alcohol and tobacco anyway by a substantial amount in order to contain the PSBR, and there was a limit to the amount that could be raised through indirect taxes. Abolition of the NIS would be very expensive.

Public Sector Pay and Employment

Sir Ray Pennock asked about public servants' pay and the Clegg commitments. The Prime Minister said that under Labour's incomes policy, public servants had been left behind. The present Government had had no option but to honour the Clegg commitments. But now that public servants had caught up, or in some cases more than caught up, pay settlements would have to be much lower. Sir Ray also said that the CBI were concerned about the number of employees in the public services, which seemed to be much higher than in other countries. The Prime Minister said that the international comparisons were sometimes misleading because other countries' figures did not include the health service. But the Government were determined to reduce numbers; and in the Civil Service, there had been a 35,000 or approximately 5% reduction in 18 months. Sir Ray responded that the private sector were cutting back faster. His own company had cut back by 10% in 9 months without reducing the level of operation. Sir Terence said that at Ford he had reduced salaried staff by 15% in one year.

Sir Ray said that CBI members were also extremely resentful of public sector index-linked pensions. The Prime Minister said that the Scott Committee would be reporting shortly on this matter.

Information on the Public Sector

Finally, the Prime Minister said that she would like to send the CBI some facts and figures which they might draw on on public spending and on price increases in nationalised industries. Sir Terence said he would be glad to have this information.

The meeting ended at 1310.

TL.

13 November 1980

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PRIME MINISTER

Meeting with Sir Terence Beckett and Sir Ray Pennock - Energy prices

I am sure Beckett and Pennock will raise the question of energy prices. They are likely to argue that our energy prices are higher than those of our competitors: that as an energy-rich country, there is no need to adopt OPEC prices domestically; that the heavy oil duty should be cut.

This is just to remind you of the line to take:

i) We do not believe that our energy prices are in general too high. Our own studies suggest that they are in line with European prices. But we look forward to seeing the CBI study of relative prices. At the same time, we are ~~also~~ encouraging the Electricity Council and Area Boards to show some flexibility so that they bring prices down closer to short-run marginal cost on a temporary basis for large users who are in temporary difficulties; and also to help their customers obtain the maximum benefit under the existing bulk supply tariff.

ii) We cannot afford lower oil prices - given the £4 billion of revenue which we get from the North Sea. But in any case charging lower prices internationally would involve a vast panoply of controls, and they would be difficult to enforce. (Note that we have to import a lot of our oil even though in net terms we are self-sufficient.)

Other points to make:

i) We are intensifying our effort to improve efficiency in the energy industries.

ii) We are accepting BCG's proposal to charge only 75% of the equivalent of gas oil prices for renewed gas contracts.

/iii)

iii) We are going to take tougher international action to make sure our competitors charge economic prices. We are pressing the three large oil suppliers to reduce their product prices.

R.

12 November 1980

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 November 1980

T Lankester Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear Tim,

I attach some comments compiled by Treasury representatives at the CBI Conference yesterday and today. These are intended to supplement the reporting in the Press rather than to summarise it - we hope that the Prime Minister will find this helpful.

Some points the Prime Minister may like to make, if opportunity arises are:

(1) that the Conference appeared to overestimate greatly the influence of relative interest rates on the exchange rate; and to ignore the underlying forces which might well sustain it for years to come however vigorously one might fight to lower it now.

(2) the frequently referred to adoption of inflow controls and tax measures to deter upward pressure on exchange rates in Germany, Switzerland and elsewhere had very little material or lasting effect. Delegates assumed the contrary on the basis of no apparent evidence. Nor did they remember Mr Healey's problems when trying, vainly, to "cap" the rate in 1977, in much less difficult circumstances than today.

(3) that the Government has achieved far more on public spending to date than it is given credit for. Many delegates were quite unaware of the sharp increases implicit in the Labour plans inherited by the present administration, or of the reductions already being made, eg in the education service.

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(4) that a good deal of CBI members' present problems can be related, as was remarked early on (but pointedly ignored subsequently) from their generosity to their own labour forces in the 1979/80 wage round. The CBI themselves had warned shortly after the election that 14% increases would be a disaster. But the membership are not drawing the moral, and the leadership are being very discreet about drawing attention to industry's own failings.

Yours

John

A J WIGGINS
Principal Private Secretary

IN CONFIDENCE

CBI CONFERENCE

CBI representatives have arranged to call on the Prime Minister, in order to report on their conference, on 12 November. Clearly they interpret the conference as giving them a mandate to press their policy views even harder than hitherto. This is a fair interpretation - which they will no doubt say is reinforced by contacts outside the meetings. But with a conference of this kind there is a good deal of ambiguity.

2. The resolutions were drafted in broad terms and no amendments were permitted. There was therefore comparatively little debating of the resolutions as such - rather they were a general focus for a number of (necessarily short) speeches. Resolution No. 4 (on Interest Rates and the Exchange Rate), on which press comment has concentrated, "supports the Government's strategy in making the defeat of inflation its top priority" before going on to draw attention to the damage being done to the country's industrial base, etc. It was overwhelmingly passed, but there were some speakers in favour of it who emphasized the element of "support" (including Sir Ray Pennock in the first part of his Speech). Others criticised the motion as not being belligerent enough.

3. The TUC and CBI conferences have it in common that most of the argument is directed to the silently listening government. There were, however, one or two speakers at the CBI conference who pointed to the incongruity of managers who wanted to be left free to run their own affairs having so little to say in practice on the subject of industrial management. And there were a few others - most notably Sir Michael Edwardes in the first part of his speech which the press has been inclined to ignore - who accepted a full share of management

responsibility for (a) allowing industrial relations to get out of hand and (b) failing to show by their actions on pay that they believed the Government's statements of intention over monetary control.

4. Perhaps the most depressing thing was that there was no speaker who seemed to attach importance to monetary control - the need to get inflation down was expressed mainly in general terms with no indication as to how it could be done except (implicitly) by monetary means. There was no exposition of the reasons for nominal interest rates being high (or recognition that real interest rates, especially post-tax, had not been high). But there was much greater realism than at last year's conference about the effects of monetary control - widespread concern about the exchange rate (which many speakers thought of greater significance for profitability than interest rates). There may have been too much of a tendency to regard the battle against inflation as won; but the climate is certainly seen as an anti-inflationary one as regards both prices and pay.

5. On pay, the motion was an innocuous one, supporting a voluntary system, but stressing the need to reform and strengthen collective bargaining; there was no mention of settlement levels, either in the motion or the debate. Equally, there was little mention of the public sector. Most of the discussion centred on the practical problems of bargaining; the importance of educating employees in financial and economic reality; and the need to look ahead now to emergence from the recession to ensure that changes in bargaining practice achieved now are realistic then as well. No one

picked up the point, made in introduction by Sir Alex Jarrett, that, given the 6% pay assumption for the RSG, the onus is on the private sector to bring down settlement levels so as to avoid an upward pull on the public sector in the future.

6. Overall, therefore the impression is of a somewhat scrappy conference, perhaps inevitable when so many subjects are covered, with a reluctance by speakers to see inter-relationships (e g that you have to have a strong monetary policy if no other means of controlling inflation is on offer; or that cheaper energy from nationalised industries would mean either higher taxes or higher interest rates). Given the ambiguities in the resolutions, no great damage was done to the Government's stance vis-a-vis industry; but it was notable that no speaker was able (or willing) to state the Government's case - though Mr Heseltine addressed a well-attended seminar before the conference began.

7. Finally, Sir Terence Beckett, in winding up, stressed the need for a robust approach to Government which, he alleged, did not understand industry and did the wrong things even if its aims were right: unless (perhaps probably) his speech was written in advance, the conference would seem to have strengthened his posture and that was no doubt his intention.

IN CONFIDENCE

## CBI Conference - Additional Points made in Debate

### Monetary Policy and Exchange Rate

- M3 a faulty compass (Utiger); "unproved nostrum" (Kaye). Higher interest rates increase it(Lloyds Bank Review, [July)
- Many speakers argue for lower interest rates.
- Need to influence Exchange Rate expectations downwards, possibly with inflow controls (Utiger and Caldecote) or tax on interest payments abroad.
- Danger of capacity shortages in the upturn when plants have closed.

### Energy Prices and Business Taxation

- British energy prices higher than those of competitors (many speakers, few facts and a Resolution); Britain only energy-rich country to adopt OPEC prices internally (Mortimer).
- Profitability targets of energy industries should not be stiffened in recession (Toombs).
- Heavy oil duty should be cut (Toombs).
- Abolish NIS (Caldecote and others); moratorium on ACT (Caldecote).
- Fiscal concessions for small businesses.

### Government Expenditure

- Need for further cuts in current expenditure and staff numbers; avoid cutting capital expenditure (various speakers).
- Support for 6% pay factor for Rate Support Grant (tended to be referred to as 6% pay limit).

IN CONFIDENCE

Trade

- Much complaint about Japanese (and other) allegedly unfair competition; and against inadequate remedies available through European Community.
- But without doubt the main thrust of speeches was liberal, reinforced by graphic illustration of Indonesian retaliation; general support for EEC membership and recognition of British vulnerability without it.

Youth Employment

- Strong support for Youth Opportunities Programme (many speakers and unanimous vote).
- Over-payment of the young in relation to skilled people, resulting in youth unemployment.
- Progress of CBI's "Understanding of British Industry" scheme.

Training

- Outdatedness, length and inflexibility of apprenticeship (not unanimous view).

Closed Shop and Secondary Picketing

- Further legislation apparently wanted - nothing said about benefits of status quo.

Worker Participation

- Voluntary approach preferred. Some virtues seen in draft EEC 5th Directive - but should be flexibility to adopt ideas in manner appropriate to own circumstances.

The order of events and texts of resolutions are attached.

# Conference Programme

**SUNDAY 9 NOVEMBER**

1500–2100 Registration at the **Conference Centre**

1800–1900 Reception at the **Conference Centre** jointly hosted by the **CBI President, Sir Raymond Pennock**, and the **Mayor of Brighton, Councillor John Leach**

1915–2030 A discussion on 'The Environment for Business' to be addressed by the **Secretary of State for the Environment, the Rt Hon Michael Heseltine MP**, in the **Skyline Restaurant, Conference Centre**

**MONDAY 10 NOVEMBER**

0925 Welcome to delegates by: **Councillor John Leach, Mayor of Brighton**

0930 Address by: **Sir Raymond Pennock, President, CBI**

0945 SESSION 1 – ECONOMIC STRATEGY FOR THE 80s*

Opening speaker for the Session: **Mr Ronald Utiger** (Chairman of British Aluminium and Chairman of the CBI's Economic and Financial Policy Committee)

Debate on:
Resolution 4 – Interest Rates and the Exchange Rate
Resolution 13 – Energy Pricing and Business Taxation

Link-speaker:
**Sir Adrian Cadbury** (Chairman of Cadbury-Schweppes and immediate past Chairman of the CBI's Economic and Financial Policy Committee)

Debate on:
Resolution 28 – Government Expenditure
Resolution 34 – Productivity

Closing speaker for the Session:
**Sir Michael Edwardes** (Chairman of BL)

1235–1400 Luncheon

1415 SESSION 2 – TRADE*

Opening speaker for the Session:
**Sir Campbell Fraser** (Chairman of Dunlop and Chairman of the CBI's Industrial Policy Committee)

TUESDAY 11th NOVEMBER

Debate on:
Resolution 48 – Free Trade versus Protectionism
Resolution 53 – Britain in Europe

Closing speaker for the Session:
**Sir Derek Ezra** (Chairman of the National Coal Board and immediate past Chairman of the CBI's Europe Committee)

SESSION 3 – PEOPLE & CHANGE*

Opening speaker for the Session:
**Lord Carr of Hadley** (Chairman of the Prudential Assurance Company and Chairman of the CBI's Education and Training Committee)

Debate on:
Resolution 77 – Youth Opportunities Programme
Resolution 81 – Skill Supply
Resolution 87 – Technology: The Opportunities

Closing speaker for the Session:
**Mr John Harvey-Jones** (Deputy Chairman of Imperial Chemical Industries)

Session ends

SESSION 4 – INDUSTRIAL RELATIONS IN THE 80s*

Opening speaker for the Session:
**Sir Alex Jarratt** (Chairman of Reed International and Chairman of the CBI's Steering Group on the Balance of Power)

Debate on:
Resolution 100 – Employment Law
Resolution 102 – Pay Determination

Link-speaker:
**Mr David Nickson** (Deputy Chairman of William Collins and Chairman of the CBI's Scottish Regional Council)

Debate on:
Resolution 104 – Employee Involvement

Closing speech to Conference:
**Sir Terence Beckett, Director-General, CBI**

Conference ends

* *Cassette recordings of each session will be available – see page 26*

# RESOLUTIONS

**4 IN[illegible]EST RATES AND THE EXCHANGE RATE**
This Conference supports the Government's strategy in making the defeat of inflation its top priority but draws attention to the damage being done to the country's industrial and commercial base and profitability and employment by the high value of sterling and high interest rates.
*CBI Yorkshire & Humberside Regional Council*

**13 ENERGY PRICING & BUSINESS TAXATION**
This Conference calls upon Government (a) to influence UK energy prices so that they are no higher than in our main competitor countries, and (b) to use a substantial proportion of the tax revenues from North Sea oil to reduce NIS and other taxes which increase the costs of trade and industry.
*Duport Ltd*

**28 GOVERNMENT EXPENDITURE**
This Conference urges the Government to bring its own spending under better control with further economies in the cost of administration through reductions in numbers employed and lower pay increases. In particular, greater pressure should be brought to bear on Local Authorities to reduce their expenditure by improving their efficiency rather than cutting their purchases from trade and industry.
*CBI Economic & Financial Policy Committee*

**34 PRODUCTIVITY**
This Conference considers that low productivity is the main barrier to lower unit costs, lower prices, more orders, more work, lower unemployment, higher real earnings and better public services in the United Kingdom and calls on the Council to seek Government and TUC support for a constructive drive to promote increased productivity as the paymaster of higher pay.
*Air Products Ltd*

**48 FREE TRADE VERSUS PROTECTIONISM**
This Conference recognises that the prime responsibility for achieving sales in a competitive market rests with individual enterprises; but it calls on Government, whilst complying with international agreements, to act imaginatively and aggressively against disruptive imports, to take urgent and positive steps to reduce chronic imbalances of trade between the UK and any other country, and to negotiate vigorously for greater reciprocity in market access.
*Whitecroft Ltd*

**53 BRITAIN IN EUROPE**
This Conference reaffirms its support for the principles of the EEC and industry's

53 (Cont'd) determination to exploit the opportunities which it presents, but deplores the slow progress towards a true common market, and in particular the fact that non-tariff barriers still hinder and obstruct British industry and commerce within the Community. It calls on all Member Governments and the new EEC Commission to expedite the harmonisation of laws, giving priority to measures of practical economic benefit, and remove national barriers and distortions of fair competition.
*Advance Tapes UK Ltd*

**77 YOUTH OPPORTUNITIES PROGRAMME**
This Conference calls on all CBI member companies formally to pledge themselves to take steps to assist unemployed young people whether by supporting the Government's Youth Opportunities Programme or by their own initiatives.
*CBI North Western Regional Council*

**81 SKILL SUPPLY**
This Conference calls for greater flexibility in the utilisation of skills by a complete re-appraisal of the apprenticeship system to provide age flexibility for entry and qualification based on proof of skill rather than time served. It calls for a CBI/TUC dialogue to advance the more efficient application of skills to create the wealth by which the country will prosper.
*CBI West Wales Area Committee*

**87 TECHNOLOGY: THE OPPORTUNITIES**
This Conference believes that the competitiveness of British industry depends on the fullest use of advanced and new technology. A positive and flexible response to the challenge of new technology both by management and trade unions is essential if Britain is to take up the opportunities it offers and benefit from them fully.
*CBI Research & Technology Committee*

**100 EMPLOYMENT LAW**
This Conference welcomes the necessary reforms introduced by the Employment Act 1980 and believes that this should provide a sound basis for better industrial relations. It recommends that decisions should not be taken on additional changes in employment law before there has been time for a proper and considered judgement on the need and scope for further reform.
*Engineering Employers' Federation*

**104 EMPLOYEE INVOLVEMENT**
This Conference stresses the vital role of employers in implementing the CBI's policy of voluntary development of employee involvement in the affairs of their company; reaffirms its strong opposition to legal compulsion; and calls upon the Government to ensure that current EEC Commission proposals in this field, including the draft Fifth Directive, are not imposed on UK companies.
*CBI Companies Committee*

Sir Terence Beckett's speech. 4

DIRECTOR-GENERAL'S NATIONAL CONFERENCE SPEECH 1980

MR PRESIDENT, LADIES AND GENTLEMEN, MT.

ON A PERSONAL NOTE, MAY I THANK MANY OF YOU FOR YOUR GOOD WISHES AND THE KIND THINGS YOU HAVE SAID ABOUT ME TAKING ON THIS NEW JOB OF MINE.

I HAVE TAKEN THIS JOB FOR TWO REASONS. THE FIRST IS I AM CONCERNED AT WHERE BRITISH INDUSTRY IS GOING. SECONDLY, I BELIEVE SOMETHING CAN BE DONE ABOUT IT.

I AM NOT A REPLACEMENT FOR JOHN METHVEN, I HAVE A VERY DIFFERENT BACKGROUND AND EXPERIENCE AND IN A JOB LIKE THIS YOU HAVE TO BE TRUE TO YOURSELF TO BE EFFECTIVE. BUT MORE IMPORTANTLY, JOHN, WAS COMPLETELY AND UTTERLY IRREPLACEABLE.

IN MY WAY, I PROMISE YOU, I SHALL DO MY BEST FOR YOU AND BRITISH INDUSTRY. BUT NO ONE KNOWS BETTER THAN ME HOW DEPENDENT I AM ON YOUR SUPPORT IF I AM GOING TO MAKE A GO OF IT.

LET ME GET DOWN TO BUSINESS, BECAUSE WE DO FACE A VERY DIFFICULT SITUATION RIGHT NOW.

WHAT ARE WE GOING TO DO ABOUT IT?

LET ME TRY TO TAKE NORAH POTTER'S MARVELLOUS ADVICE ON USING CLEAR SIMPLE WORDS.

AT AN EVEN MORE DANGEROUS TIME IN OUR COUNTRY'S HISTORY, FORTY YEARS AGO, IN 1940, AT THE DARKEST HOUR AFTER THE FALL OF FRANCE, WINSTON CHURCHILL NEWLY APPOINTED AS PRIME MINISTER SAID IN THE HOUSE OF COMMONS:

> "YOU ASK, WHAT IS OUR AIM?  I CAN ANSWER THAT IN ONE WORD:  VICTORY - VICTORY AT ALL COSTS;  VICTORY IN SPITE OF ALL TERROR;  VICTORY, HOWEVER LONG AND HARD THE ROAD MAY BE."

THAT WAS CRYSTAL CLEAR.

WE IN THIS HALL ARE THE LEADERS OF BRITISH INDUSTRY. OUR RESPONSIBILITY, OUR INESCAPABLE DUTY, IS TO SAY WHAT HAS TO BE DONE TO ACHIEVE OUR VICTORY FOR BRITAIN IN PEACE-TIME.

THE VICTORY WE WANT IS SIMPLE AND OVERWHELMING: TO ACHIEVE A BASIS FOR REAL PROSPERITY FOR THIS COUNTRY IN THE SECOND HALF OF THE EIGHTIES. WE ARE A LONG WAY FROM IT TODAY, BUT THE AIM IS CLEAR. NOTHING LESS WILL DO. I BELIEVE IT CAN BE ACHIEVED.

BUT YOU'VE GOT TO BE PREPARED TO FIGHT FOR IT.

WHAT I WANT TO TALK YOU ABOUT TODAY IS WHAT WE NEED TO DO FROM NOW ON IF WE ARE GOING TO ~~SUCCEED.~~ WIN.

THERE HAS BEEN SOME GOOD KNOCK-ABOUT STUFF IN THE PRESS LATELY ABOUT THE CBI ATTACKING THE CONSERVATIVE GOVERNMENT. THE CBI DOES NOT OWN A CONSERVATIVE GOVERNMENT IN THE WAY THE TRADE UNIONS OWN A LABOUR GOVERNMENT, BUT CONVERSELY THE CBI RESPONSIBILITY IS TO SPEAK UP FOR WHAT INDUSTRY NEEDS TO BE SUCCESSFUL, BELIEVING THAT OUR MANAGEMENT OF INDUSTRY IS A TRUST FOR THE PEOPLE AS A WHOLE.

YOU HAD BETTER FACE THE BRUTAL FACT THAT THE CONSERVATIVE PARTY IS A RATHER NARROW ALLIANCE. HOW MANY OF THEM IN PARLIAMENT OR THE CABINET HAVE ACTUALLY RUN A BUSINESS?

THIS MATTERS. THEY DON'T ALL UNDERSTAND YOU. THEY THINK THEY DO, BUT THEY DON'T. THEY ARE EVEN SUSPICIOUS OF YOU - MANY OF YOU - WHAT IS WORSE THEY DON'T TAKE YOU SERIOUSLY.

I WOULD NOT ADVOCATE WHAT I AM GOING TO SAY WERE THE CAUSE NOT NOBLE - WE HAVE GOT TO TAKE THE GLOVES OFF AND HAVE A BARE KNUCKLE FIGHT - BECAUSE WE HAVE GOT TO HAVE AN EFFECTIVE AND PROSPEROUS INDUSTRY.

IT MATTERS TO THE PEOPLE OF THIS COUNTRY.

THE ALTERNATIVE ISN'T THE END OF THE WORLD. IT IS JUST INEXORABLE AND MISERABLE DECLINE INTO SHABBY GENTILITY IF WE ARE LUCKY OR, MORE PROBABLY BENNERY.

YOU HAD BETTER DECIDE WHAT YOU WANT. IN CROMWELL'S INSTRUCTIONS TO HIS NEW MODEL ARMY HE SAID THAT HE WOULD HAVE EACH RUSSET COATED CAPTAIN KNOW WHAT HE WAS FIGHTING FOR AND LOVE WHAT HE KNOWS.

IF THE POOR OLD FIRE BRIGADE UNION STARTS STACKING THE FIREWOOD FOR THEIR DAY AND NIGHT VIGILS AS SOON AS THE 6% NORM IS ANNOUNCED, <u>WE</u> ARE NOW DOWN TO LESS THAN 3% RETURN ON CAPITAL.

THE CREAKING AXLE GETS THE GREASE IN THIS SOCIETY OF OURS TODAY UNFORTUNATELY.

LOOK AT WHAT THE FARMERS' UNION HAS DONE FOR ITS MEMBERS. IT IS FABULOUS - AND THEY ARE NOT THE EASIEST LOT TO ORGANISE.

WE IN THE CBI HAVE GREAT SKILLS AT OUR DISPOSAL IF WE REALLY WANT TO BE A PRESSURE GROUP. WE ARE NOT IGNORANT OF THE ARTS OF WAR.

BUT WE MUST WIN OUR FIGHTS. LET US PICK OUR WAY. WE ARE NOT TALKING ABOUT THE BATTLE OF THE SOMME OR PASSCHENDAELE BUT SOMETHING MORE LIKE THE S.A.S. RESCUE AT THE IRANIAN EMBASSY. THEIR MOTTO, AS YOU KNOW, IS "WHO DARES WINS".

BUT IT WASN'T JUST DARING.

THEY KNEW EXACTLY WHAT THEY HAD TO DO AND WITH A PRACTISED AND PUNCTILIOUS PROFESSIONALISM THEY DID IT.

BUT BEFORE WE DO THIS, WE HAVE TO KNOW WHAT WE WANT.

AND I AGREE WITH MR. SYKES THAT SOME OF OUR REQUIREMENTS ARE MORE COMPLICATED AND A LITTLE DIFFERENT FROM THE RESOLUTIONS WE HAVE HAD IN FRONT OF US HERE TODAY AND YESTERDAY. WE'VE GOT TO DO BETTER AS WE GO ON. LET US TRY TO SUMMARISE WHERE WE ARE.

WE ARE 100 PER CENT IN SUPPORT OF GOVERNMENT POLICY TO BRING DOWN INFLATION IN SPITE OF THE PAIN, BUT WE ARE OVERDOING IT RIGHT NOW - WE ARE 100 PER CENT IN SUPPORT OF SIR GEOFFREY HOWE'S AIM DECLARED IN HIS FIRST BUDGET SIXTEEN MONTHS AGO, TO ACHIEVE A PROFITABLE AND FLOURISHING COMPANY SECTOR.

BUT IF WE ARE NOT SATISFIED WITH THE WAY THE POLICY IS BEING CARRIED OUT WE HAVE TO BE MORE DIRECT THAN WE HAVE BEEN IN WHAT WE SAY IF WE WANT SOME ACTION - AND WE DO. WITH ALL THE ROBUST VIGOUR WE HAVE AMONGST OUR MEMBERSHIP WE MUST ALL SAY TO THE GOVERNMENT : "WE AGREE WITH YOUR AIMS - BUT WHEN ARE WE GOING TO GET ON WITH THEM?"

A TOUCH OF REALISM FOR THE COUNTRY AS A WHOLE WOULDN'T COME AMISS ON WHERE WE ARE TODAY. A MANUFACTURER IN THE NORTH WEST SAID TO ME : "WE THOUGHT A SHAKE-OUT WOULD BE ALLRIGHT, BUT IT IS ONLY JUST LATELY WE'VE SEEN THE SIZE OF THE HOLES IN THE SIEVE."

YOU HAVE ALL SEEN THE LATEST CBI TRENDS SURVEY. JAMES CLEMINSON DESCRIBED IT YESTERDAY. IT IS THE BLACKEST SURVEY WE HAVE EVER PUBLISHED, NOT ONLY TELLING YOU HOW BUSINESS IS DOING TODAY, BUT THAT IT IS GOING TO GET MUCH WORSE.

BUT I HAVE ALSO ALWAYS TRIED TO SEE FOR MYSELF WHAT IS GOING ON. IN THE LAST FIVE WEEKS I HAVE VISITED THE SEVEN WORST-HIT REGIONS IN THIS COUNTRY : UP IN SCOTLAND AND DOWN IN WALES; IN THE NORTH WEST AND UP IN THE NORTH; IN THE WEST MIDLANDS AND THE EAST MIDLANDS AND LAST WEEK I WENT TO NORTHERN IRELAND. THIS IS WALKING THE SHOP-FLOOR. WHAT I SAW FILLS OUT AND CONFIRMS WHAT THE CBI FORECASTS SAID WOULD HAPPEN, AND WHAT WE HAVE HEARD AT THIS CONFERENCE OVER THE PAST TWO DAYS. IT IS A DAUNTING SITUATION.

WHAT I HAVE LEARNED IN THE LAST SIX WEEKS BOILS DOWN TO THIS : THERE IS NO QUESTION WHATSOEVER THAT THE REAL ECONOMY IS BEING VERY RAPIDLY AND EFFECTIVELY DEFLATED. WE MUST BE CAREFUL NOT TO DESTROY TOO MUCH OF OUR INDUSTRIAL CAPACITY. OTHERWISE WE MIGHT WIN THE BATTLE AGAINST INFLATION BUT LOSE THE WAR FOR PROSPERITY.

AS MANY PEOPLE SAID YESTERDAY : IF WE'RE NOT CAREFUL A LOT OF INDUSTRY WON'T BE AROUND WHEN THE REVIVAL COMES.

WITH OUR REAL PROFITABILITY NOW DOWN TO 3 PER CENT ON CAPITAL - AND FALLING - WE REALLY DO FEEL A BIT LIKE THE GYPSY'S HORSE.

YOU WILL REMEMBER THE GYPSY TRAINED IT TO EAT LESS AND LESS EACH DAY. THEN WHEN HE HAD GOT IT TO THE ULTIMATE LEVEL OF PERFORMANCE, WHEN THE POOR OLD HORSE WAS EATING NOTHING AT ALL, TO HIS GREAT SURPRISE IT WENT AND DIED ON HIM.

OUR SHORT-TERM NEEDS THEREFORE ARE CLEAR : WE HAVE GOT TO HAVE A LOWER POUND, LOWER INTEREST RATES AND A REDUCTION IN THE NATIONAL INSURANCE SURCHARGE. THIS SURCHARGE IS A TAX ON DOMESTICALLY PRODUCED GOODS VERSUS IMPORTS AND IT DISCOURAGES EXPORTS. IT HAS GOT TO BE ONE OF THE STUPIDEST TAXES EVER DEVISED. WE MUST GET RID OF IT. AND IF WE HAVE TO UP THE TAX ON BOOZE AND FAGS, SO BE IT. INDUSTRY MATTERS MORE.

THESE ARE OUR SHORT-TERM NEEDS.

BUT WHERE DO WE GO FROM THERE?

IF THE CBI IS TO PLAY A REAL AND STATESMANLIKE ROLE IN OUR AFFAIRS AT THIS CRUCIAL TIME - WE NEED A STEADY AND UNSWERVING VISION AND OUR COURAGE MUST NOT BE TUCKED IN OUR BACK POCKETS. WE NEED TO TALK WITH ONE VOICE AND AVOID SHOOTING FROM THE HIP.

AS YOU KNOW, WE ARE WORKING ON A COHESIVE ECONOMIC STRATEGY FOR THE FUTURE WHICH WE WILL PUBLISH AT THE END OF FEBRUARY. I PROPOSED THIS TO THE PRESIDENT'S COMMITTEE, THE COUNCIL, TO THE REGIONAL CHAIRMEN AND TO THE ECONOMIC AND FINANCIAL POLICY COMMITTEE AND IT HAS RECEIVED THEIR COMPLETE SUPPORT.

MUCH OF WHAT HAS BEEN SAID IN THE PAST TWO DAYS WILL FIND ITS WAY INTO THAT DOCUMENT AND THERE WILL BE FURTHER DEBATE UP AND DOWN THE COUNTRY WITH THE MEMBERSHIP BEFORE IT IS PUBLISHED - AND A FULL OPPORTUNITY TO DISCUSS IT AFTER THAT.

WE HAVE A GOOD TRACK RECORD AT THE CBI WHEN SETTING OUT AND WINNING OUR OBJECTIVES : THE ADOPTION OF STOCK RELIEF IN 1974 - SIMPLE IN CONCEPT, SAVED LARGE TRACTS OF BRITISH INDUSTRY IN THE LAST RECESSION OF 1974-75.

THEN WE ADVOCATED CUTS IN INCOME TAX, THE REMOVAL OF DIVIDEND AND EXCHANGE CONTROLS - AND THESE WERE ACHIEVED IN THIS GOVERNMENT'S FIRST YEAR. WE STOPPED THE STUPIDITY OF BULLOCK WITH THE LAST GOVERNMENT AND GOT RID OF THE PRICE COMMISSION WITH THIS ONE. WHEN WE GET ORGANISED WE ARE EFFECTIVE!

WE NEED TO BE EVEN MORE EFFECTIVE NOW. POSSIBLY THE SINGLE MOST IMPORTANT REASON FOR DEVELOPING OUR STRATEGY IS TO GIVE US SOME ENCOURAGEMENT, SOME HOPE, TO SHOW US THE TARGETS WE'RE AIMING AT IN THE VERY CHALLENGING TIME WHICH LIES AHEAD.

THE STRATEGY WE ARE DEVELOPING WILL SPELL OUT WHERE WE ARE AND WHERE PRESENT TRENDS WILL GET US.

WE ~~ALSO~~ WANT TO GET INFLATION RIGHT DOWN AND PERMANENTLY. WE WILL GO ON TO DESCRIBE WHAT WE NEED TO DO TO LAY THE FOUNDATIONS FOR A MUCH MORE PROSPEROUS SECOND HALF OF THE DECADE.

OTHER IDEAS WE NEED TO LOOK AT ARE THOSE WHICH SAY THAT WITH OIL, MANUFACTURING INDUSTRY HAS TO DECLINE, ABSOLUTELY, NOT JUST RELATIVELY. SIR ADRIAN CADBURY SAID YESTERDAY WE MUST EXAMINE THIS PROPOSITION VERY CRITICALLY - AND NOT LET IT HAPPEN.

ANOTHER IDEA WE NEED TO LOOK AT VERY CAREFULLY IS THE SIEGE ECONOMY THAT SOME PEOPLE THINK WE ARE INEVITABLY HEADING FOR, WITH IMPORT CONTROLS ON MANY GOODS.

A THIRD OF ALL OUR BUSINESS DEPENDS ON FOREIGN TRADE. IF WE LOST A LOT OF THIS IN A SIEGE ECONOMY YOU CAN IMAGINE WHAT THIS WOULD DO TO OUR STANDARD OF LIVING. WE HAVE TO SAY TO THE PEOPLE OF THIS COUNTRY YOU HAVE TO MAKE YOUR MINDS UP WHETHER YOU WANT AN EAST EUROPEAN STANDARD OF LIVING.

BUT PUTTING THESE MORE EXTREME SOLUTIONS ON ONE SIDE, ALL THE REPUTABLE FORECASTERS AGREE THAT ANY PLAN WHICH ASSUMES WE HAVE OIL, STEADILY DIMINISHING INFLATION, BUT EVERYTHING ELSE REMAINS AS IT IS, THEN THIS WILL RESULT IN MASSIVE AND GROWING UNEMPLOYMENT FOR A LONG TIME AHEAD, AND MANUFACTURING DECLINE.

[LET ME REPEAT THAT BECAUSE IT IS THE HINGE POINT OF OUR ANALYSIS]

WE CANNOT ACCEPT THIS. THE ASSUMPTION WE SHOULD QUESTION IS "EVERYTHING ELSE REMAINS AS IT IS."

FOR ONE THING THERE MUST BE A RESTRUCTURING OF BRITISH INDUSTRY. SOMETHING MUST BE DONE TO REVERSE TODAY'S TRENDS. WE MUST PROVIDE MORE JOBS AND GREATER PROSPERITY.

NO ONE SHOULD UNDERESTIMATE THE TASK. MANY MILLIONS OF OUR PEOPLE WORK IN OLDER INDUSTRIES WHERE EMPLOYMENT OPPROTUNITIES COULD WELL BE HALVED BY SAY, 1985.. CAN WE DEVELOP OTHER INDUSTRIES QUICKLY ENOUGH TO PROVIDE ALTERNATIVE JOBS?

OVER A HUNDRED YEARS AGO, IN THE HEY DAY OF LAISSEZ-FAIRE, IN THE THIRD QUARTER OF THE 19TH CENTURY IN THIS COUNTRY, MEN FULLY BELIEVED THAT IF THEY PROMOTED THEIR OWN INDIVIDUAL INTERESTS, THEY WOULD BEST ADVANCE THOSE OF THE COMMUNITY AS A WHOLE. THE HIDDEN HAND, NOT THEIRS, WOULD PULL IT ALL TOGETHER. BUT THESE MEN, ALMOST TOTALLY POSSESSED BY THIS PHILOSOPHY, PRAGMATICALLY WORKED TOGETHER TO CHANGE THEIR INSTITUTIONS TO MAKE THEMSELVES MORE EFFECTIVE.

IN THE 19TH CENTURY THESE MEN INTRODUCED THE EXTRA-ORDINARY CONCEPT OF LIMITED LIABILITY TO FINANCE INDUSTRIAL DEVELOPMENT. THEY CONTROLLED THE BANKS. THEY INTRODUCED FACTORY ACTS AND UNIVERSAL EDUCATION. THEY EXTENDED THE FRANCHISE. THEY GOT TOGETHER TO PROVIDE PROPER SEWAGE AND CLEAN WATER. SOME OF THESE ACHIEVEMENTS, LOOKING BACK AT THEM, ARE ASTOUNDING.

WHERE ARE WE TODAY?

WE HAVE DONE NOTHING ABOUT OUR INSTITUTIONS FOR A VERY LONG TIME. SOME OF THEM ARE GRUESOMELY OUT OF DATE IN A RAPIDLY CHANGING WORLD.

FOR INSTANCE -

WHY CAN'T WE LOOK AT THE ROLE OF GOVERNMENT WITH THE NATIONALISED INDUSTRIES.

THE POLICY FOR THE NATIONALISED INDUSTRIES ISN'T WORKING PROPERLY TODAY. ONE PARTY BELIEVES WE SHOULD HAVE A LOT MORE NATIONALISED INDUSTRIES, IRRESPECTIVE OF HOW THEY ARE RUN. THE OTHER TENDS TO STIFF ARM THE LOT AND SAY THEY ARE NOTHING TO DO WITH THEM.

WE THINK IT WOULD BE A GOOD IDEA TO WORK OUT SOME LONG-TERM POLICIES FOR THE NATIONALISED INDUSTRIES SO THAT THEY KNOW WHERE THEY STAND AND CAN PLAN TO DO A MORE EFFECTIVE JOB.

WHY CAN'T WE USE THE REVENUES OF NORTH SEA OIL TO RESTRUCTURE BRITISH INDUSTRY? THE ALMOST UNIVERSAL RESPONSE IS "UGH! NO! WE ARE NOT VERY GOOD AT PICKING WINNERS, OLD BOY." THIS IS SLOPPY, WET DEFEATISM. WE ARE CERTAINLY GOOD AT SUPPORTING LOSERS. OTHER COUNTRIES SUCH AS FRANCE AND JAPAN, WITH FREE MARKET ECONOMIES CAN USE NATIONAL RESOURCES TO PICK WINNERS, BACK THEM AND MAKE THEM WORK.

WHY CAN'T WE DEVELOP A DIFFERENT SYSTEM FOR PAY DETERMINATION THAN GOING TO ONE CORNER OF A TRIANGLE WHICH IS AN INCOMES POLICY OR THE OTHER CORNER WHICH IS HYPER-INFLATION, OR THE THIRD, AN ECONOMIC DEPRESSION? OTHER COUNTRIES WORK OUT THEIR WAGES, YOU KNOW, WITHOUT GOING TO THESE EXTREMES.

THERE ARE MANY OTHER WORRIES : OUR EDUCATIONAL SYSTEM, THE FUNDING OF INVESTMENT, OUR PRODUCTIVITY, OUR QUALITY, MOST IMPORTANT OF ALL, HOW DO WE DEVELOP PRODUCTS THAT THE REST OF THE WORLD WILL WANT MORE THAN ANYONE ELSE'S?

FINALLY OUR MOTIVATION, OUR INVOLVEMENT OF PEOPLE IN REAL ACHIEVEMENT AND PROSPERITY. WHAT DO OUR MANAGERS HAVE TO DO TO MAKE IT ALL WORK? MR BENNETT THE CHAIRMAN OF W H SMITH, ROBUSTLY DIRECTED OUR ATTENTION YESTERDAY TO THE FACT THAT MANAGEMENT HAS GOT TO DO A BETTER JOB. IT REALLY IS UP TO US.

BUT LOOKING AT THESE PROBLEMS AS A WHOLE THEY WILL NOT BE SOLVED IN ANY DOCUMENT WE CAN PRODUCE BY FEBRUARY, BUT WE WILL AT LEAST HAVE AN AGENDA FOR FUTURE ACTION.

AND ACT WE MUST, AND SOON.

WE SOMETIMES FORGET IN OUR SELF-CRITICISM - AND WE ARE THE GREATEST LIVING EXPERTS IN THIS ART FORM IN THE WORLD - THAT, AS THE PRESIDENT REMINDED US YESTERDAY, WE HAVE MORE THAN DOUBLED OUR REAL STANDARD OF LIVING IN THIS COUNTRY IN THE LAST THIRTY YEARS. WE SHOULD ALSO REMEMBER THAT OUR FOREIGN TRADE IS A LARGER PROPORTION OF GDP THAN ANY OTHER MAJOR COUNTRY.

OVER THE LAST TWO DAYS, NO ONE HAS DUCKED OUT OF INDUSTRY'S RESPONSIBILITY.

IF YOU TALK TO BUSINESSMEN AND INDUSTRIALISTS, THEY WILL TELL YOU THEY <u>KNOW</u> THEY ARE RESPONSIBLE FOR PUTTING IT RIGHT, AND IT HAS BEEN SAID TIME AND TIME AGAIN IN THIS CONFERENCE. NO ONE ELSE CAN. THIS SPIRIT OF SELF-RELIANCE IN INDUSTRY IS IMPORTANT. IT IS THE ONLY THING THAT WILL DO THE JOB. UNIONS AND GOVERNMENT ARE NOT GOING TO DO THE JOB - CERTAINLY NOT THE MAJOR PART OF IT.

MOST IMPORTANT OF ALL, I DETECT A REAL SENSE OF CHANGE IN INDUSTRY, GOVERNMENT AND THE TRADE UNIONS. THERE IS AN UNDERSTANDING THAT THE STAKES ARE HIGHER TODAY, THAT THE CONSEQUENCES OF SUCCESS OR FAILURE ARE GREATER THAN THEY HAVE EVER BEEN BEFORE.

DO WE NEED A U-TURN? I'LL SAY WE DO! NOT IN THE GOVERNMENT'S BASIC POLICY, BUT IN OUR ATTITUDES AND AMBITIONS.

WE NEED TO TURN RIGHT ROUND AND REDISCOVER CONFIDENCE IN OUR OWN ABILITY TO ACHIEVE SUCCESS. WE'VE DONE IT BEFORE. WE MUST DO IT AGAIN.

SUCCESS BREEDS SUCCESS.

SOME OF US HAVE SEEN THIS IN OUR OWN COMPANIES. WHEN THINGS WENT BADLY, EVERYBODY'S PERFORMANCE SUFFERED.

GOOD MEN BECAME MEDIOCRITIES OR FAILED. BUT, WHEN A FEW THINGS WERE DONE SUCCESSFULLY, THEY ATTRACTED LIKE MAGNETS, OTHER ACHIEVEMENTS. SUDDENLY, ORDINARY PEOPLE BECAME QUITE OUTSTANDING.

THERE ARE MANY EXAMPLES IN HISTORY. LET ME TAKE ONE A LONG WAY REMOVED FROM OUR PRESENT SITUATION TO SHOW HOW A FEW ACHIEVEMENTS SUDDENLY PROVOKE A TRANSFORMATION OF THE LIFE CHANCES OF A PEOPLE.

IN 15TH CENTURY FLORENCE, IN THE QUATTROCENTO, A SMALL CITY STATE WAS SUDDENLY SPARKED INTO AN ARTISTIC EXPLOSION. IT BEGAN MODERATELY WITH THE COMPLETION OF A CATHEDRAL AND A CONTEST TO DESIGN SOME BAPTISTERY DOORS.

THE GENETIC INHERITANCE OF FLORENCE IN THAT GENERATION WAS NO DIFFERENT FROM DOZENS OF GENERATIONS THAT HAD PRECEDED IT, BUT SUDDENLY IN ARCHITECTURE, PAINTING, CERAMICS, JEWELLERY AND POETRY, EVERYBODY IN THAT GENERATION CAUGHT FIRE.

A HUNDRED SONNETS WERE WRITTEN IN A SINGLE NIGHT AND PINNED ON A CHURCH DOOR BY MEN WHO WERE SUDDENLY EXCITED IN A WAY THAT THEY HAD NEVER KNOWN BEFORE BY THE POSSIBILITIES OF A RICHER EXISTENCE THAN THEY OR THEIR FOREFATHERS HAD EVER PREVIOUSLY IMAGINED.

MEN WORKED THROUGH THE NIGHT, AS WELL AS THE DAY, EXPLORING THE TREMENDOUS EXCITEMENT OF THE BRAND NEW IDEA OF PERSPECTIVE IN DRAWINGS AND PAINTING.

A PREVIOUS GENERATION HAD SIMPLY WORKED AND FED AND SLEPT.

WE NEED A LITTLE OF THE PASSION OF THE FLORENTINE QUATTROCENTO IN BRITAIN TODAY. THE TALENT IS THERE, BUT IT'S ASLEEP.

THE ADVANTAGES WE WOULD GAIN IN OUR PRIVATE AND SOCIAL STANDING OF LIVING ARE OBVIOUS, BUT THE SENSE OF NATIONAL ACHIEVEMENT WOULD BE EVEN MORE SATISFYING.

WE HAVE SOME INDUSTRIAL SUCCESSES IN BRITAIN TODAY. WE NEED SOME MORE TO GET THE MASS TO GO CRITICAL. THEN SUCCESS WILL BUILD ON SUCCESS.

WE HAVE DONE IT BEFORE. WE DID IT INDUSTRIALLY IN THE 19TH CENTURY. THE JAPANESE ARE DOING IT TODAY. WE ARE AS GOOD A PEOPLE AS THEY ARE, AREN'T WE?

THE STRATEGY I HAVE DESCRIBED CAN ONLY BE A BEGINNING, TO STRIKE A SMALL SPARK, BUT TO DO THIS, WE NEED THE BEST PEOPLE IN THE CBI AND THE COUNTRY TO HELP US PUT IT TOGETHER. IF WE CAN DO IT, AND THEN FOLLOW THROUGH, THERE IS NO DOUBT THIS COUNTRY OF OURS COULD SHAKE ITSELF OUT OF ITS TORPOR AND BECOME ONCE MORE ABSOLUTELY OUTSTANDING IN THE WORLD.

IT'S UP TO US - WE ARE THE PEOPLE WHO CAN DO IT.

A.23

CHANCELLOR

CBI CONFERENCE

Following our discussion last night and a further conversation with Mr Dixon this morning, I have spoken to Sir Raymond Pennock. It is clear that he feels no need to see you over the weekend, and that the general line he himself will be taking will be not unhelpful to our position - though the same cannot of course be said for everybody! I stressed to him that I would be at his disposal throughout the Conference should he wish me to see anybody, attend any meetings or be helpful in any other way that might occur to him.

2. He told me briefly the line he will be taking in his own address which is as follows. He will express unstinting admiration for the PM personally (he stressed the word personally), and his own and the CBI's complete support for the fundamental objectives of the Government's policy. He will reiterate, as he did last year, that the abolition of controls over wages and prices and dividends has at last made it possible for businessmen to act as businessmen, and really to manage. He will then go on to say, however, that there are certain things he must point out to the Government. While greatly welcoming the announcement of the 6% figure for public sector pay, it is absolutely vital to make better progress with the control of public spending than has been made up to now. It is vital, too, to be prepared to take a risk with interest rates. Last but not least, it is vital not to be misled by anecdote. The CBI's own surveys of industry show the dreadful levels of demand, production and capacity utilisation. While it is always possible to quote the counter examples that suit one's book - based on anecdote and the odd specific case - one must not allow these to erase from one's mind the overriding importance of the general position. He also had it in mind to refer at some point of the importance of persuading

the outside world that oil production will amount at most to no more than 8% of our GNP.

3. I am also sending a copy of this note to Tim Lankester at No 10 for information.

AR

ADAM RIDLEY
7 November 1980

PART 1 ends:-

CAW to Pennock 15.9.80

PART 2 begins:-

Ridley to Ch Ex 7.11.80