

CONFIDENTIAL



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

30th May 1980

T. Lankester, Esq.,  
No.10, Downing Street

*Dear Tim,*

PRIME MINISTER'S MEETING WITH THE CBI

You asked for briefing for the Prime Minister's meeting with Sir John Greenborough and Sir Ray Pennock on Monday.

You have already seen the Chancellor's speech to the CBI Annual Dinner, and the record of the Chancellor's meeting with Messrs. Greenborough and Pennock on 16th May. For the sake of completeness, I enclose copies of Sir John Greenborough's speech at the Annual Dinner and a larger meeting the Chancellor held with the CBI, also on 16th May (as amended by John Isaac!) To go with this material, I enclose a note on import protection, picking up recent press reports of statements by Sir Greenborough. It is interesting to note that the tone of Sir John Greenborough's speech at the CBI dinner was distinctly tougher than what he said at the meeting with the Chancellor. We think this reflects increasing pressure from CBI member firms.

All this by way of background. It is likely that the CBI will press on the Prime Minister their view that interest rates should be lowered fairly soon. They may also complain about the exchange rate. I enclose short notes, as an aide memoire, for the Prime Minister following her recent discussion with the Chancellor and Treasury officials.

There were two subjects which the Chancellor thinks the Prime Minister might usefully raise with the CBI, viz

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pay and discussion with the trade unions. A Treasury brief on these points is enclosed. (The Chancellor has not seen it.) I consulted the Chancellor over the telephone, and he asked me to bring out one or two specific points. Firstly, it would be well worth asking the CBI what kind of bilateral contacts they think the Government could most usefully pursue with the TUC/the trade unions. This would be useful background to the Prime Minister's meeting on Tuesday with the Chancellor and the Secretary of State for Employment. On pay, the Chancellor sees three specific roles for the CBI - as keeping the Government up to the mark on public sector pay by analysis and comment; as a means of influencing nationalised industry chairmen (who are members of the CBI) on pay; and finally as an influence on "market leaders". This last point is, of course, double-edged, in that there clearly has to be some reflection in pay settlements that some companies are more profitable and have better productivity growth than others; but equally, the e.g. toolmakers at BL are part of the same labour market as those at Ford, and it is hard to see how settlements at Ford will not have some influence on other firms.

Yours ever,

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M.A. HALL