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Confederation of British Industry

From the Director-General: Sir John Methven

21 Tothill Street London SW1H 9LP Telephone 01-930 6711 Telex 21332 Telegrams Cobustry London SW1

GOV/PM/1

28 June 1979

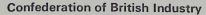
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In the letter to you of 21 June, the President said that we would be writing to all CBI members urging them to respond to the new climate that you and your Government created by the Budget.

I now enclose a copy of the letter which I have just sent out. We shall be publicizing individual examples of actions taken by companies and management in the new climate. I have mentioned R T Z Wheal Jane in the letter to members and I also enclose a copy of the letter that I have had from Bob Thornton, Chief Executive of Debenhams, which arose from a conversation which I had with him and to which, I am sure that you will agree, he has responded in the fullest fashion.

We will also be publicizing shortly a note which should help managers to resist wage claims based on the RPI: and I will send that to you, if I may. I am sure that you will agree that it is absolutely essential that we all get over to the public in every possible way over the next two months the fact that people really will have more money in their pockets and that excessive wage claims pushed through by the unions, will, in the absence of much higher productivity, only lead to higher inflation and further loss of jobs. I hope that you will agree that we might discuss this information problem as one of the topics at the meeting on 9 July.

The Rt Hon Mrs Margaret Thatcher MP Prime Minister 10 Downing Street LONDON S W 1 In ear





From the Director General, Sir John Methven To the Managing Director or Chief Executive 21 Tothill Street London SW1H 9LP Telephone 01-930 6711 Telex 21332 Telegrams Cobustry London SW1

Dear Mansey

28 June 1979

Over the last three years, I have written to all of you on a regular basis, explaining in my own words what I believe that the CBI had achieved and the objectives I thought we should be striking out for.

I had intended to use this letter as a normal report to you all. But that I now think would be wrong. This letter needs to be straightforward and to the point; and I would ask you all to read it and then discuss it with your colleagues throughout your organisation. My reason for asking this is as follows.

Deery one of us knows that we are entering a crucial period in the UK. We have a Government which, in its Budget, has set out to do many of the things that on the personal incentives front we have so long argued for. They have taken risks, but they have been bold and courageous. They have been bold in dealing with the Price Commission. I believe too, that they intend to move firmly on the Industrial Relations front. If they don't, they will get pushed very sharply by the CBI:

So at last we have a Government which is intent on giving us - managers, employers and shopfloor - many of the conditions for which we have asked: and they are going to ask us all - as they are entitled to - how we are going to respond.

How can we - each of us - respond? At its meeting on Wednesday last week the CBI Council responded by passing the following resolution (and the CBI Council very tarely passes resolutions!):

'This Council fully supports the strategy and the direction of the Budget and recognises that its success will hinge to a large extent on the ability of managers and employers throughout business to respond to the challenge and the incentives it provides. The CBI Council therefore calls on all CBI member firms to do everything in their power through the efficient and competitive management of their enterprises to ensure that the policies, which the CBI has long advocated and which are now being pursued by the Government, lead to higher productivity, higher living standards, more jobs and a more successful economy, in the interests of the British people as a whole.'

The CBI, as \tilde{I} well know, has no power or right, of its own initiative, to make promises on behalf of its membership. It is not samething I would ever attempt. But we have learned to act and fight together over the last three years when it

was really necessary — over Bullock, on Government contracts, on sanctions: and I thank you for that.

Now what I ask you to show on an individual and company basis is that you recognise that we have a new climate for business and that we can and will respond to it.

How? For example, by responding as RTZ did, when they decided to re-examine the possibility of acquiring and re-opening Wheal Jane, the tin-mine in Cornwall, without Government aid: by fighting to obtain moderation in wage levels in the coming months and above all by getting real productivity increases: by showing, publicly, by individual example after individual example, that we - as managers as employers - are responding to the new climate by specific actions on the investment front, on the wages and salaries front, on the productivity front and by explaining the facts of life to our work-force to a much greater extent than in the past - encouraging a much greater sense of involvement with the firm for which they work.

Those of you who are owners of independent small firms (and you comprise the vast majority of members of the CBI) have a special challenge. The way in which you respond to the encouragement of risk taking will be crucial to the success or failure of the Government's policy. I believe that now you have a real opportunity to do the job you should be doing - taking risks and creating prosperity as a result.

I do not pretend that the next 12 months, or even thereafter, will be easy. The world economic outlook is certainly difficult. Indeed it may be that the CBI will have substantial disagreements with the present Covernment, for example over what changes the Government should make in industrial relations legislation or over changes to competition policy. That is why the CBI is needed - to go on putting the business point of view, irrespective of who is in Government.

But that should not and, I believe, will not deter each and every one of us from responding to the new climate and doing our best (which means much better than in the past) to deliver a high output, high earnings economy which will enable us to create the free, prosperous and caring society in which we all believe.

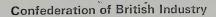
If we fail in this new environment - when we are being given the sort of incentives we have asked for - we may never be believed again. We may never get such a chance again. Nad we shouldn't be surprised then if other, unpalatable, alternative strategies gain more attraction.

I can assure you that every one of the CBI staff in the Regions and in Tothill Street (not least myself) will be ready to help you. In particular I will be sending you shortly a note on inflation, pay and the changes in personal taxation which I hope that you will find helpful.

But please tell us specifically how you are responding to the new climate and what you are doing. We want to help to publicise it.

Yes, this is a call to arms. This is a call to be positive and to publicise what we are doing. This is a call to show that we believe in a market economy and that, when given the right conditions, we can make a market economy work for the benefit of the British people as a whole - even though it may take us some long time fully to succeed.

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From the Director-General: Sir John Methyen



21 Tothill Street London SW1H 9LP Telephone 01-930 6711 Telex 21332 Telegrams Cobustry London SW1

29 June 1979

Land 813,

Thank you very much indeed for your letter of 25 June 1979. If I may say so I was absolutely delighted to read it. I am taking the liberty of including a copy of your letter in a letter to the Prime Minister which I now enclose. I am sure that she will be as delighted as I am.

Are you going to publicise what you are doing? And, would it be possible for us to use the information provided that we do not in any way use your name unless you agree to it? I feel it is a question of getting a stone rolling: and what you have done should greatly help.

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R C Thornton Esq Deputy Chairman and Chief Executive Debenhams Limited 1 Welbeck Street London W1A 1DF

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DEBENHAMS LIMITED

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Sir John Methven, Director General, Confederation of British Industry, 21 Tothill Street, London, SWIH 9LP. ONE WELBECK STREET, LONDON, WIA IDF

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25th June, 1979

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Lean John,

I thought I would drop you a line and let you know something of the general feeling in the Debenham Group as a result of the new Budget.

First, and I am writing with restraint; there was a strong surge of patriotic feeling went through the senior management as the realisation sank in that here at last was a Government acting in the best interests of the country. With this came a determination to make the Budget work. Here are a few of the things we have decided to do as a result:

- The increase in V.A.T. has left us in some confusion about our sales, margins and stock planning for the future. The one point, however, which comes out most clearly is the grave danger of a drop in unit sales with resultant price increases throughout the We have, therefore, as a matter of urgency, instituted a review of all our sources of supply to ensure that the axe falls most gently on the suppliers, particularly in the U.K., with whom we wish to have growing long term relations. This means, of course, a cruel blow to a number of fringe people; but we take the view that in any case one of our problems as a country is that we have too many fringe activities.
- 2. Although we regard ourselves as the lowest cost Department Store Group in the world, we have instituted another look at all our costs, particularly those associated with the bureaucracy, both our own and that of Whitehall which, as you know, imposes on us heavy demands for paper returns, etc. We are going to perform surgery with zest I look forward to the first confrontation with some Whitehall Department asking /

asking for returns that we are no longer going to send them. I should be glad if you would tell your friends in Government that this is going to happen and I will keep you informed of how the battle goes.

- We have struggled here for a year or two with a number of fringe activities of our own and have probably been self-indulgent; we shall be closing down a number of these within a matter of weeks and hope to claw back £5m. of capital and put it to better use.
- 4. I am attaching an extract from the Financial Times of 15th June which gives you a clear picture of our investment programme and our optimism about the United Kingdom. It makes no mention there of the \$40m. of sales we achieve in the United States. We intend to grow in that market from profits achieved there and without cost to the U.K. will build up a hard selling, high return asset.
- We believe that the Chancellor means what he says about credit and therefore we are increasing our credit charges in order to damp down this method of selling and, incidentally, make more money.
- 6. We are looking again at fuel and distribution costs and, in particular, at company motor cars. We hope to come up with an idea for putting the choice back on the individual. We provide over 700 company cars and what we have in mind is to give staff the money instead. We think this will encourage them to be more frugal in their use of cars and fuel.

It was a pleasure to see you again the other day and, on behalf of my colleagues I want you to be assured, and pass the message on, that we intend to support the Government in its actions.

Yours sincerely,

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Debenhams begins to benefit, 19 from earlier developments

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THE DEVELOPMENTS planned of siles \$19m (55.0m), less and street some years ago by gearing of \$1.0m (53.0m). The stability retail distributor. The \$78.0m utriplus arising recommendation of the groups are compared to the stability of the stabilit the from 1 stream and from a resistance of the groups the group is because for each profession and in 1978 SEM in the beacht axis SEA anthony requires profession to the property of the profession of the profession and the profession of the profes