



10 DOWNING STREET

c.c. Mr. Hoskyns
Mr. Wolfson

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Ind Pol: CBI mtgs
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From the Private Secretary

14 December 1979

Dear Tom,

Sir John Methven called on the Prime Minister this morning. The following points which came up in discussion are worth recording.

The Business Climate and Publicity

Sir John said that the business community was still supporting the Government's strategy to a remarkable degree, notwithstanding the financial pressure particularly on smaller firms - caused by the increase in MLR. The vast majority of businessmen felt that "this was the last chance". It was all the more noteworthy that business support was continuing at a time when short-term expectations were becoming increasingly gloomy.

However, he was concerned that not enough was being done to put the Government's policies over. He accepted that the Prime Minister and the Chancellor were doing a good deal on this front, but he felt bound to say that more was needed. The CBI were themselves doing a great deal to put over the Government's message. He would find it easier to hold his members' support when the business climate got tougher in the coming months if senior Ministers could speak out more. He was not so much concerned about projecting the message to the community as a whole, but rather with providing moral support to employers to enable them to see out the recession.

Public Expenditure

Sir John said that the CBI Council would be considering a draft letter on public expenditure at their next meeting. This would argue the need for further public expenditure cuts, and he hoped to send it to the Prime Minister in early January.

Employment Bill

Sir John said that the CBI completely supported the current Bill, but they thought it would be wise to include an amendment

/at Committee

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at Committee stage to restore the legal position to what it was before the McShane judgement. He felt it would be a mistake to include amendments aimed at removing the immunities in respect of commercial contracts. Although it might be desirable in principle to remove these immunities, there was a real risk that this would be going too fast. The legislation would be useless unless employers could be persuaded to enforce it. If too big a step was taken, it was all too likely that they would not support it. There was also the danger that to remove the commercial contract immunities would bring a real breach between employers and Government on the one hand, and the unions on the other.

The Prime Minister said that the Government would certainly include an amendment at Committee stage of the Bill to deal with the McShane judgement. She noted what Sir John had said about immunities in respect of commercial contracts but commented that in her view these immunities must at some stage be removed.

Pay

Sir John said that the CBI Data Bank showed that big variations in pay settlements were emerging - ranging from as little as 5 per cent to over 25 per cent. This was all for the good, since it indicated that pay bargaining was beginning to take into account the ability of firms to pay. None the less, the average rate of settlement was still running too high. The main factor behind this was the continuing influence which the RPI had on union claims. But opposite factors were beginning to have an effect: these were the immediate threat of redundancies, and the realisation that excessive pay can jeopardise employment in the future.

CBI Surveys

The Prime Minister said that recent CBI industrial trends surveys had provided the Government's critics with a lot of ammunition. She wondered whether the presentation of the survey results could not be more balanced. Sir John replied that he would look into this, and in any case he would ensure that Ministers were given greater warning when the survey results were likely to cause particular difficulty.

I am sending copies of this letter to Ian Ellison (Department of Industry), Ian Fair (Department of Employment), Richard Prescott (Paymaster General's Office) and Martin Vile (Cabinet Office).

Jan *aw.*
T. L.

A. M. W. Battishill, Esq.,
H.M. Treasury.

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