

R. Siffert
Rankin *is a v. profound*
interview. PS seems to have written on
his mind but two clothes
write a ballistics piece (probably tomorrow).
See PM's point (x p2) abt TV
Mr. Lytham
P. Sargent will want to
PRIME MINISTER'S INTERVIEW WITH PATRICK SARGENT, DAILY MAIL: 3.11.80

and emp opinion
interviewer.
4-11
CIRK
+ PA

PS: They're all here

PM: It's a fascinating place. If you really want to see private enterprise at work, to produce a higher standard of living than anyone else can.

PS: I go there two or three times a year. My Euro money business, and I find it fascinating. But here you are now, you're winning. How do you feel?

PM: We're battling through. We shall battle through, but it's trying just to break through where we've always retreated before. That's the point, and that was really the point of the weekend speech.

PS: I saw a bit on the box last night.

PM: It went down alright. I noticed the main coverage was a bit that wasn't in the press release.

PS: What came over on the TV? You looked full of beans, which is the main thing.

PM: It's quite extraordinary on television. It's not exactly what you said. The press are very much more analytical of actually what you say. It is a general impression. It was a very very strange hall. A great big lecture theatre cum theatre. Actually this shape Does it run at a profit? No, it runs at a loss. How much is that on the rates?

PS: Quite a good point. Do you feel that ...

PM: We're winning, but the thing is we just have to break through. I think we haven't yet got across - we're all having a go this weekend. No one's yet got across the fact that there is quite a severe world recession. They're all blaming everything on us, and so that's why I was doing - there've been Chrysler, Massey Fergusson and steel in Europe. Now that takes in this side of the

Atlantic, the other side of the Atlantic, Europe as a whole. I don't think it's only the Western world, the Communist world, not only economic control, political ones as well. Now I can't be blamed for a £200 m loss on General Motors in the United States, ^{or the fact} the steel markets.. So we have to get that across. And also the unemployment figures in a number of other countries are worse than ours, in Canada, Italy, Ireland, extremely bad in Belgium for quite a long time. So we have to get across the world recession. The second point we have to get across is as far as this country is concerned, we always retreated from taking the medicine, and because of that your unemployment went up too high, and so we stopped trying to curb inflation, and started to pump money in and in and in, and you got a number of artificial jobs. You never got your unemployment back where it had been before. And then things went so badly wrong that you had to take the sound steps again. So each time you started with a higher base of unemployment, and you've never got back. Now we have to break through that, and that really is the battle this coming year. The other thing that I have to get across - don't call it reflation, or pumping money into the economy. That would save the British economy, but we'd already be the most prosperous country in the world. We gave examples - over a period of a lifetime - the Labour Government which Tim sorted out - £20,000 m extra went into the economy, and unemployment rose and prices doubled. And the last 3 years alone there has been a 50% increase in spending on monetary power in the economy. And only 4% has gone into output. The rest has gone to pay prices, imports. So the idea which they're running, that by reflating, or pumping money in, you can all of a sudden get people expanding, investing, is poppycock. That's what we've been trying to get through this last weekend.

PS: Do you mean get through your own Party?

PM: Generally. I reckon there's only one thing that I have to get through to the public. And speeches aren't the best way to do it. The best way to do are the longer interviews, and we must soon do one or two on television.

/ PS:

PS: Yes. Those messages should get across, but I think slightly more sophisticated is that the last 20 years, I've seen Prime Ministers and Chancellors become sort of obsessed with figures which usually turn out to be wrong or badly in need of correction.

PM: Yes, quite right.

PS: The question is the mood that you're aiming at. The mood has changed - tremendous change of attitude.

PM: I think anyone has to do something about, quite honestly, unemployment. What you must not do is to think that general reflation will solve your problem. What you do must be selective, directed to particular packets or particular groups, and that's the way you have to go about it. You don't just leave it, you want to do selective things. Where you make your cuts in expenditure, you deliberately have to look, I must not cut off that order because that is that factory, and a tendency - and I look back at Healey's reductions, IMF reductions. He did it two ways. By cutting capital spending and by very severely increasing nationalised industry prices. Cash limits for the first time. Now we're used to cash limits. Now, we in our cuts, I'm constantly saying it's the general ordinary revenue running expenditure now, the pay is the biggest thing and numbers. If you go on putting it into that, and you have a cash limit, of course it all goes into teachers pay, there's less for equipment in schools and school books. so your MacMillans get irritated.

PS: Are you determined to find public sector?

PM: Well, we have to because I think - you saw the new earnings survey - very worth looking at. I think that the line to take is that public sector incomes policies have in fact suffered. They've caught up absolutely and they've had an extremely good deal. Now we have to follow it soon - I'll tell you why. At the Election we were frequently asked, our claim's gone to Clegg, will you honour the results? And we said we would. So were saddled with an

extra £3 b. at a time when we were trying to cut expenditure. All right, we've got through it, and we've honoured it, the whole lot. Now, we're in a position to say - in fact many of the public sector are better off by far than the private sector - right the private sector is suffering more than the public sector.

PS: Are you willing to see hospital workers and the usual collection out on strike?

PM: No, let me put it this way - I'm prepared to say that I think if we get the message across, It's the private sector who keep us - from me to them, from them to me. And if we're taking out more, we're taking it out of the private sector, no, extra overheads on them can cause their unemployment. I'm not just saying hold down your pay, just for the sake of saying hold down your pay, but because the new phenomenon in trade unionism is that what you take out extra for yourself, you take out of the expense of a fellow trade unionist. Your extra standard of living might mean his job.

PS: In the newspaper industry you find people in work don't care tuppence for people out of work.

PM: This is where the TUC ought to come in. Because a number of them have people who work in private sector and public sector. Now this is a selfishness that there is, if it is, then they can't blame me. I'm now getting the message, yes, your increases in pay do have an effect on jobs. You get far more than your German counterpart, you'll get the business. In America, in Saudi Arabia, and we shan't.

PS: In this attitude, don't you think it's very important from what you've said about the private sector, that the public sector pay is held down?

PM: I most certainly do. Particularly after a very generous year because in the Government controlled public services it has gone up by 35%. I don't think that anyone can say we haven't treated the public sector well, or the private sector, to be more specific, has not treated the public sector well. It has.

/ PS:

PS: That probably still leaves you with a militant public sector. Will you try to hold it to single figures?

PM: I think most of them do realise that they've had very very good increases. Most of them live in communities where other people are fearful of losing their jobs. And I think that as advocates and politicians we can't put over, persuade the case for reasonableness is not for us. But people would otherwise lose their jobs it says neither very much for the people we're talking to, nor very much for us.

PS: You have the public sector much more in control. The nationalised industries

PM: The nationalised industries are very difficult except even they, when they go on putting up their prices, find not an increasing income, but a falling income. Look at coal. That's quite a big example, they can't sell it. They ought to be able to sell exports like nobody's business. Why, because their costs are too high.

PS: Couldn't you virtually denationalise coal? The most fashionable stocks in the world are coal stocks. Why shouldn't the coal industry raise its capital outside the PSBR?

PM: You cannot, I think, sell a loss-maker. Coal is still a loss-maker. We've got it on a financial strategy, a financial course where the grants to making losses will be extinguished within 3 years.

PS: A lot of that loss means capital strength?

PM: No, a lot of the loss making lies in keeping on uneconomic pits which increases the price of coal, and you really will have to be very generous with those who are working uneconomic pits. Because that is depressing the whole industry. It will take them 3 years - they've been doing it over a number of years. There used to be 700,000 people in the coal industry. Now there's about 250,000.

/And

And then, I think when you've got at making a profit then there's a chance that you might be able to raise all your capital.

PS: As you look at the PSBR and all the rest of the mumbo-jumbo an imaginative Treasury and Bank, don't you feel that since people attach so much importance to what is really unimportant, you could raise the money outside the market instead of going, for example, issuing Government stocks as you do at the moment, you could issue Granny Bonds and the like, down to the 50s, and then raise 3 or 4 billion.

PM: Well, we are as you know going to have a big issue of Granny Bonds because we are very conscious that what has happened in the last year has been that the money has been drained out of the corporate sector into pockets. We've been living on consumption instead of on investment. It's just drained out in the last 2 years. And in spite of everything there's been an increase in net disposable income over each of the last 2 years. So the money's drained out there, into the personal sector. And what we've got to try to do is to get it back into the corporate sector, but not necessarily through the banking system, or get it into Government without borrowing through the banking system. So obviously we'll go for Granny Bonds as one thing, and have to try to look for other means to get that personal sector money either lent to Government or lent to companies, without going through the multiplier on monetarism of the banking sector. And so we'll go heavily for Granny Bonds, and we'll just have to think of other ways as well.

PS: All you have to do is reduce Granny Bond age by another 5 years.

PM: You would be absolutely confident of course of achieving your inflation, and I must say there is no problem that will be permanently solved by pursuing a policy of increasing inflation. Ultimately you'll solve nothing unless you bring down your inflation. And if we weren't bringing it down, and as fast as we are, people would be desperately worried about it. It's really a compliment to us that we're succeeding in that, that they've switched their attack to unemployment and of course they're worried about that.

/ Now

Now there's something people haven't really spotted yet about unemployment. There's an increasing number of people on the labour market, and part of the unemployment is the increasing number of people looking for jobs. There's a slight decline in jobs at the moment. That's not the whole explanation of there's an increasing number of people looking for jobs. The school leavers last year, this year and next year - unusually high number because of the birth rate at the beginning of the 60s. Quite a lot more married women working, so far more people wanting jobs.

PS: Why should, looking back one of the mistakes was putting VAT out in a first budget, and I see now there's what appears to be inspired leaks next door, that they're putting up the indirect taxes. Surely this would delay the

PM: I wouldn't agree with you it was a mistake to put out VAT in the first budget, if we hadn't you would never have done it, and if we hadn't got that money in, we could not have done the substantial decreases in taxation. It was vital to get that done, vital for the wealth-creating group, a number of them have come back to get that done. So I think by the time we're 2 years out, it will not have been a mistake. We've got that, thank goodness we have. Otherwise it would be even more difficult for the It is a problem, you see those taxes are not/indexed, ^{valorised,} And you're absolutely right. The real problem is every time you do that you put up the RPI which isn't inflation, it's a different measure. And it is a problem because every time you put up the RPI, ^{to} it's not only on wages, but you've got your multiplier through/every social security payment of which - it's 20b on social security, retirement pensions, unemployment, sickness, invalidity, attendance and Civil Service pensions.

PS: I agree with you, looking back, maybe one should have valorised VAT.

PM: VAT is a percentage, but your alcohol and tobacco are X pence.

/PS:

PS: If you had, as you have now, so important next year, if you halve inflation, as, given just a little bit of a following wind, and your determination, you will be next summer - everything else will then begin to come right.

PM: You want it down below 10% and then you don't want to give up, you want to. The battle at the moment is of course interest rates because the fact is Government borrowing, local authority borrowing, nationalised industry borrowing, private sector borrowing - the demand is greater than the supply of money available. That's why we're trying to pull out of it. Even if we went out of it, the market for nationalised industries, we've still got to go to it. We've still got the burden on the same pool. You go through them - coal's making a loss, 834 m of which 256 m are for losses of one sort or another, and British Rail 730 m, steel about 830 - a billion now. British Leyland is - you look at them you see. British Aerospace, British Airways and National Freight Corporation, we've passed on legislation. We can sell them to the market. Now it's a question of British Airways is on a tricky time at the moment. But all the legislation is through, so you can judge it when the market is right. Same with freight and with British Aerospace. At the moment it's it's not a good time to sell. It's astonishing that borrowing is still so high.

PS: It'll all turn. If you saw the Financial Times this morning, their monthly confidence survey - optimism is up. Now you'd have expected people answering questions like that being more glum perhaps than they felt.

PM: Slightly up. The deeper you go into a recession, the nearer you are to coming out of it.

PS: doing something perhaps extraordinary or unusual to tap the one thing which is enormously surplus which is a private saving.

PM: It is enormously in surplus, and that's really why, you're absolutely right, one has to try to get a group of instruments that will appeal to those. What we have to watch though is that it / doesn't

doesn't drain out of the building societies when in fact you want it to come out from some of the bank deposits.

PS: Well, the bank deposits and building society deposits are more or less interchangeable.

PM: In some ways yes. In some ways your building societies use their surplus to buy

PS: ... Challenge you that when you're in, you are approaching in the old sense of the word the prices, and you're very near the promised land, so to speak. You get over this winter, I think it'll all turn out, and come right as it's done before.

PM: Better than before.

PS: I think better than before, and so why not in the building societies and homeowners been the pampered best treated for 20 years, 30 years. For 6 months let the building societies stand still or even lose a bit of money. It won't matter too much.

PM: If it affects my mortgage interest, that affects the RPI. Now what - as council house rents go up to cut down your subsidy that affects the RPI. As some of those go up one hopes it will come to a stage when the mortgage repayments will go down. They're both on the RPI. But I think there is a market without affecting them too much undoubtedly - you're absolutely right - we're not tapping sufficiently... Granny Bonds

PS: They're going for a billion and a half by bringing the age down 5 years.

PM: And by an extra amount, you can hold dearer ones and ...

PS: They could do - particularly from the Government's point of view - like converting your war loan in 1932. You could do a great deal now as your interest rates must go down eventually.

PM: As inflation comes down. The fact is that people still look at the inflation rate over the yearly basis and because of the

Healey figure of 8.4 we're always reluctant to go to a shorter term basis. But if you look at the 6-monthly figure - the Healey figure is the same as the 6-monthly figure - we're nearly down to single figures already. You're really very very much below the annual figure. But you're absolutely right - if I might respectfully say so - in your diagnosis. There's a lot of personal savings which we're not effectively tapping, and we wish to tap savings outside the banking sector. And the question is what are the best means of doing it? Granny Bonds one, and now we must look at others.

PS: How are you moved by these arguments about interest rates? Do you think it's a very important part of the fight against inflation? MLR as high as it is?

PM: I am the first person to want to bring MLR down, but you see if you looked at some of the figures about 3 weeks ago the market rate was well above the MLR. You can't just move the MLR down if your market's way above. It won't have any effect. The only effect it will have is some companies with overdrafts as long as your arm will go and borrow the money from the banks and shove it into the market. And there you have a manufacturing round tripping. When we brought it down from 17 to 16 it followed the market.

PS: You're in a sense waiting for a lead from the market?

PM: Put it this way - you can't just bring down the MLR if the market rate is well above. It won't have any beneficial effect. It will merely mean that we couldn't raise our debt. Unless you have a whole quiver of other means of raising it - the Granny Bonds, and after the New Year we ought not to have to raise so much because that's when your taxes come in.

PS: The Government's very well on with its funding programme for the moment. Do you think it's had a psychological effect? Will it cheer people up?

PM: The moment we can prudently reduce the interest rate, yes.
/ Because

Because it means that people might, realising then that it's on its way down, then start to build up some stocks. At the moment you don't hold more stocks than you possibly have to .

PS: The Government funding is 20 year money/ or 10 year money, whereas MLR is

PM: Some of it's 10 year money. We had the 5 year one out the other day for 400 m, surtax. But one doesn't really want to put a bigger burden on future generations, but as people look at the interest figures piling up, they all think it's increased interest rates. It isn't. It's increased debt. It's only 10 years ago since we had absolutely no deficit at all.

PS: It could go back - should go back. We haven't got time to talk about it now, perhaps another time. I think what you need - and you have many famous admirers you talk to in the City I know - is a little imaginative financing.

PM: If you mean by financing borrowing requirement, yes. In a totally different way. I would agree with you. This has been the subject of ...

PS: People have got very obsessed with that - they won't look beyond that particular little mountain. There are quite a number of ways it could be done. You have a Euro Dollar market.

PM: If I bring more currency in - I've got to keep an eye on that as well. I really have, because I have 2 things bothering industry at the moment. The exchange rate and the interest rate. I am always very conscious that the exchange rate is actually one of the things that is helping inflation down. But it hits different industries totally differently. It hits some it's a great advantage because they bring in their raw materials at lower cost or their semi-fabricated. When it's a great disadvantage, some of the people like ICI it is hitting. They're equally conscious, and one doesn't want the exchange rate just to start tumbling. There have been occasions when some companies have relied not on increasing efficiency but on the depreciating pound.

/PS:

PS: Ever since ICI announced they were making a loss, ICI shares have gone steadily up. The Market took the point that it was a propaganda exercise and that in fact the chemical market has turned. Volume's dropping along the bottom, prices have turned up. Shares have been going up.

PM: Their balance sheet was strong; basically a good balance sheet. Basically fairly liquid, and you see as people start to liquidate their stocks really their cash position should improve, and you know here we are talking about the same things. For the last 10 years money has gone into pay and not into investment. And we really just have now to start to turn that round. It's also, not only for the Government to do its borrowing, for the Government to get its interest rate down so that industry can then go and get its borrowing from the market and not from the banks. There's so much to go for, if one can get a break through in this coming year.

PS: It will all come right.

PM: Of that I have no doubt.

PS: I hope you're right because if you don't restore former currency to this country, no one else is going to try to get ...

PM: I am confident. I am constantly saying look, who's got the lowest unemployment, Germany, Switzerland, because they've got the lowest inflation because they've pursued sound policies for years. And they've got better social services, and a better standard of living.

PS: We talked about phoney figures, and we've seen both Parties down the years obsessed with this unemployment figure which is very, as you were saying earlier, not exact. Is there, do you think, in your political judgement, is there a point beyond which either the country or the Party would get embarrassingly restive about?

PM: I think they would if you weren't actively doing something, first to help the young. Because there's a very

/ - there's

there's every reason for helping the young. The worst thing possible for them is to leave school and not to be able to be occupied. Secondly, I am very concerned that when we do manage to get them occupied, and we've promised them all jobs by Easter, that as much of it as possible should be in industry and commerce. For that's the training they don't get enough of. They don't get any - very much of industry and commerce at school, except the girls who might get shorthand and typing, they don't get the way of thinking and of looking at things. So I think quite rightly everyone would get restive - I would - if we weren't actively trying to have a Youth Opportunities Programme. I myself call it Youth Employment Programme. Secondly, we have to look at all of the money that we're spending on a combination of supporting employment - at the moment in industries we could just keep them in by doing some short time, compensation work, and various unemployment subsidies, and the training. Now you take those two. We're spending over £900 m on a mixture of training and on the support to employment measures, and yet there is what I would call a skill deficit. And the moment we get an upturn coming, there will be a bigger skill deficit.^{been} So we really have to look at that, and say why is it that we've/spending this amount of money on training for a long time - it's certainly more now than it was last year - quite rightly so - so we've had every industrial training board, we've had a manpower services commission, we had skill centres, but we've got what I would call a skill deficit. We've got to look at that to see that the youngsters are going to be trained in skills which are going to be needed the moment the upturn comes. NEDDY had a report out the other day. We haven't got enough computer operators, enough people skilled in micro-electronics. The industries are the best trainers. But we can do something. We've got to work some of this right back to the school because the first thing when you send the youngsters to the employer he says but they haven't got the basics, which is a terrible reflection on 11 years of compulsory education. We've poured money into school buildings, into more teachers and school equipment. But we still have somehow a much greater division in this country between what they're taught at school and what they need to learn for industry and commerce. And that too we've got to tackle. So it isn't sit back and do nothing, you've got particularly to look at the youngsters, and you've got to look at the whole training for

skills. And that is a very very very active programme. It's not a sitting back in any way. You'll still find skill deficits in some parts of the country now, and in others you'll find that there is over-subscribing for apprenticeship courses. The other thing we've got to look at is how the trade unions look at the numbers of people on apprenticeship courses because they've been restricting the entry for years.

PS: You're going to have a lot of trouble with this union business. What is going on as you know probably - we've been overmanned everybody says - every report says so - nobody has done anything about it, it's painful and disruptive. last week - 1700 people. So what do we do? Another 60 or 70 we've been wanting to get rid of for ages, so we turn them out as well.

PM: If a factory goes out on the continent it's not an overmanned factory. Therefore it's more chance of staying in because it's costs are smaller. We're an overmanned factory, and we have a bigger chance of going out because we're not competitive and then you lose more people.

PS: It's very important what you've said about this skill deficit because ...

PM: Do use the phrase skill deficit, and we've got to make certain by the time the upturn comes we've got enough skill.

PS: The upturn will come economically and financially, be very slow in coming I think in unemployment. They won't take them back.

PM: We can train some of them for skills that are required. And of course you should get an expansion.

PS: You'll get a services expansion. We haven't got the people educated, our market, the Euro Dollar market; even with unemployment we're letting people come from abroad. People who don't have the skills. If you suddenly established a Bank of Hiroshima in the middle of the City you'd look round English people, as you say, computer skill or various calculating things they use there, they can't always find them.

/ PM:

PM: You see, this is what grieves me. We've a Manpower Services Commission, a skill centre practically in every street - and we still ...

PS: Probably none of them ever come near the City. You talk of your energy booming ... financial markets, Euro Dollar markets, banking, commodities ...

PM: I do think we've got to start to get some of these opportunities in some of the old northern towns, where we all think they want manufacturing - they don't. They want some more manufacturing, but they want some alternative employment for their youngsters as well.

PS: There are industries who do well - services industries.

PM: It's not a standstill period - it can be an exciting period, preparing for the new expansion.

PRIME MINISTER

~~ml~~ PA²

You are due to see Patrick Sergeant,
City Editor of the Daily Mail, on Monday,
3 November at 12 noon for 45 minutes.

He will obviously want to do a
tour d'horizon around the economic
situation. You will recall that he
recently argued very strongly for an
immediate 2% cut in MLR (cutting
attached) and that his colleague,
Gordon Greig, Political Editor, ran a
story forecasting "an emergency budget
before Christmas" with higher indirect
taxes a few days ago.

~~NG~~
NEVILLE GAFFIN

31 October, 1980