



10 DOWNING STREET

From the Private Secretary

2 June 1980

As you know, Sir John Greenborough and Sir Ray Pennock called on the Prime Minister this evening. They were only able to have a short discussion. The following were the main points raised:

i) Successor to Sir John Methven

Sir John said that this appointment was crucial. He and Sir Ray had identified a few good names who might be willing to serve. But it would be very helpful if, when they had finally decided on a candidate, the Prime Minister would be willing to lend her support. If she could indicate that this was a post of national importance, that would help to persuade the person in question that he should take on the post. They hoped to have identified a suitable candidate within the next two to three months. The Prime Minister said that she would willingly do what she could to help.

ii) Getting over the realities

Sir Ray said that one of his main tasks would be to continue Sir John's efforts to get over the realities of business life to the trade unions. Management in British industry was signally weak at explaining to employees the "facts of life"; the CBI had to help change this. They would do all they could to persuade trade union leaders that pay bargaining must be realistic. The Prime Minister commented that it was better for the CBI to do this than for Ministers to do so - though she and her colleagues would continue to do what they could in speeches. Sir John said that he hoped that Ministers would make even greater efforts in this area.

iii) Discussions with the trade unions on other matters

Sir Ray said that the CBI were talking to the trade unions on various matters. He mentioned, in particular, talks about profit sharing schemes, and at some stage they might want to meet the Prime Minister, along with trade union leaders, to discuss them.

iv) Trade union legislation

Sir Ray said that the trade unions were too strong, and that more radical measures were needed if a better balance in pay bargaining was to be achieved. The Prime Minister commented that

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the CBI in its representations had not appeared to have been in favour of more radical legislation. Sir John explained this by saying that it was important not to alienate moderate rank and file trade unionists to whom the Government and employers had to look if a greater sense of reality was to emerge. The Prime Minister, however, said that it appeared to her that moderate trade unionists were in fact asking for greater protection under the law.

v) Interest rates

Sir John said that the continued high level of interest rates was a major concern to CBI members, particularly small businesses. Their members felt that, now that there was evidence that M3 was well within the target range, MLR should be reduced. They did not want anything spectacular, but rather a small downward move to show that the Government was sympathetic to their worsening financial position. They would rather the Government took the risk of an early reduction, with the possibility that this would have to be reversed, than maintain MLR at its current rate. They felt that the Government was now achieving firm monetary discipline. But they were also disappointed that public spending had not been reduced more. Both Ministers in charge of Departments and civil servants were too resistant to cutting back the programmes for which they were responsible. The Prime Minister commented that it would be a mistake to reduce interest rates until there was clear evidence that bank lending to the private sector was coming down. She was concerned that lending to the personal sector was continuing to expand, and that this was being encouraged by advertising of credit cards. Insofar as the banks were members of the CBI, she wondered whether the CBI could bring pressure to bear on them to reduce this advertising.

vi) National Insurance Surcharge

Sir Ray said that he hoped the Government would be prepared to consider allocating some of the savings on the EEC budget to a reduction in the National Insurance surcharge. The Prime Minister replied that the first priority must be to get interest rates down, and that the savings on the EEC budget would go to reduce the PSBR.

I am sending copies of this letter to Richard Dykes (Department of Employment) and Peter Stredder (Department of Industry).

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HM Treasury.