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Treasury Chambers, Parliament Street, SW1P 3AG
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30th May, 1979

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MR. LEN MURRAY

You asked in your letter of 23rd May for briefing for the Prime Minister's meeting with Len Murray on Thursday, covering some wider economic questions. I attach a self-contained brief. Also enclosed is a copy of the memorandum which the TUC provided for the meeting with the Chancellor. Tony Battishill's record follows later today.

I am copying this letter to Ian Fair (Department of Employment) and Martin Vile (Cabinet Office).

Yours ever,

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(M. A. HALL)

T. P. Lankester, Esq.,

30 MAY 1979



NOTES FOR PRIME MINISTER'S MEETING WITH MR. LEN MURRAYEconomic Prospects

The TUC approach to the UK economy, confirmed again by Mr. Murray and his colleagues yesterday, 29 May, when they met the Chancellor of the Exchequer to make formal pre-Budget representations, acknowledges years of disappointing performance, blames "structural" problems, and advocates the deliberate encouragement of faster economic growth, with protection against import competition, as a basis for increasing industrial output and thus improving productivity, unit costs, profitability and investment for future growth. They concede that extreme monetary imbalance should be avoided but argue against any restrictive target for the public sector borrowing requirement while unemployment is high. As far as the coming Budget is concerned, they urge demand stimulus via reduced taxation (raising personal allowances, not reducing the basic rate), and enhanced social benefits, and they urged the Chancellor to avoid both indirect tax increases which would add to price rises and reductions in public expenditure which would add to unemployment.

2. In receiving the TUC representations, the Chancellor made it clear that he rejected the idea of demand-led expansion and aimed to concentrate on balancing the books and improving the supply side of the economy.

3. The Prime Minister will not want to debate economic policy with Mr. Murray, but might usefully make the following points:

- The Government's objective is to encourage a more vigorous economy - the only way of achieving and maintaining more jobs and higher real incomes.
- The solution cannot lie simply in creating more demand, as shown by the unhappy experiences of the 1973 attempt at growth-led expansion and the 1978 experience of nearly 6 per cent increase in real consumer demand with negligible response from UK industry.
- The structural changes needed are matters of attitude and behaviour in all areas and at all levels of economic activity:

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this is why the Government will be focussing on incentives and reward, on greater freedom in industry and a greater awareness of and more rapid response to market conditions.

- Given the preoccupation of many TUC leaders with the prospective impact on industry of scientific and technological change, the Prime Minister could emphasise the importance of adaptability and willingness to change in the years ahead.
- It has to be acknowledged that far-reaching changes in attitudes and behaviour will not be achieved over night, and their effects will take a little time to come through.
- If investment and expansion in industry is to take place, those responsible must have confidence that future growth will be sustained: the lesson from the past - and from other countries - is that restraint of money supply and of the financial balance in the public sector has a vital contribution to make to this.
- The Government is embarking on a strategy for at least the life of a Parliament: this time-horizon in itself gives the opportunity to create a new climate which will benefit the whole working population.

Pay

4. The Prime Minister might like to sound Mr. Murray on his views of the climate and prospects for pay over the coming year and on the role - if any - which he sees for the TUC (as distinct from individual unions and their leaders) in this. A particular point on which to press Mr. Murray might be the development of responsible bargaining in a climate of financial constraints: he is himself well aware that private sector negotiators have been far more responsive to such constraint than those in the public sector. Much depends on the degree of conviction that the constraint will work among the union leaders and members engaged in negotiations; to the extent that there is a trade-off between pay and jobs, the TUC may well want simply to protest, but has an interest, if the policy is made to stick, in educating its affiliates into a sensible recognition of the constraints.

5. The Prime Minister will want to relate to the discussion of pay and negotiations some discussion of the problems of industrial action and the role of the TUC, on which the Department of Employment are providing separate briefing.

Consultations

6. As Mr. Murray will doubtless make clear, trades unions are in no mood to accept any formal pay policy, pay limits or norms, and the TUC leadership could not, even if they wished, make any move in that direction. The Prime Minister may wish to make it clear that the Government has no intention of seeking any formal pay policy. Mr. Murray will nevertheless want to maintain a place for the TUC in bilateral or tripartite consultations with the Government. There are different areas of discussion:

Further note
on line for
you to take
on next
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- In speaking to the Chancellor, Mr. Murray has already expressed his desire to maintain the NEDC machinery of tripartite consultation, particularly relating to industrial developments.
- No similar formal machinery exists on pay and industrial relations, and Mr. Murray may be chary of too much formality (he has considerable problems in establishing any representative body - which should be reasonably small to be effective in discussion with the Government - which is acceptable to the full membership of the TUC General Council: the incident last November when the General Council rejected an agreement with Government reached by the NEDC Six was a setback for Mr. Murray personally); the Prime Minister might like to ask Mr. Murray for his views, and indicate readiness to go along with informal consultations led, according to subject, either by the Secretary of State for Employment or the Chancellor, both of whom would wish to keep close contact, without necessarily seeking formality, and without setting particular formal objectives.

PRIME MINISTER'S MEETING WITH MR LEN MURRAY

NATIONAL ECONOMIC DEVELOPMENT COUNCIL

The National Economic Development Council (NEDC) is meeting on 6 June with the Chancellor in the Chair. The main item on the agenda is a paper on industrial trends by the Director-General of NEDC, Mr Chandler. This will give rise to discussion about how industrial problems should be handled in the NEDC and whether the "industrial strategy" exercise launched on a tripartite basis in November 1975, involving some 40 Sector Working Parties reporting to the NEDC, should be continued. The Secretary of State for Industry and the Chancellor of the Exchequer will be saying something at the meeting about how they see the future role of the Sector Working Parties and it would probably be best for the Prime Minister not to anticipate this, or to be drawn at this stage about wider roles for the NEDC, but to confine herself to the following :-

- (a) The government very much agrees with some of the philosophy behind the NEDC exercise, especially in so far as it reflects a belief that the nation's economic problems cannot be overcome by macro-economic measures alone, but have to be solved also by detailed attention to the constraints on the "supply side" of the economy - see paragraph 3 above.
- (b) The government's emphasis on providing the right environment and incentives for industry and the people who work in it, rather than spoonfeeding it, will highlight the need for industry to solve its own problems. It may well be that the Sector Working Parties will have a useful role to perform here, but it is very much a question of the situation in each industry and whether the problems are such that joint analysis and mutual education can help to overcome them.

(c) The approach to tripartite mechanisms such as the NEDC will no doubt be an evolutionary one.

Institutions work only as well as the participants are able to make them. The main point to get across at the present stage is that the Government will be responsive and creative as it develops a working relationship with the two sides of industry both in the NEDC and otherwise.

Industrial Policy Group
H M Treasury

30 May 1979