RECORD OF DISCUSSION AT A WORKING DINNER WITH THE CONFEDERATION OF BRITISH INDUSTRY: 21 TOTHILL STREET, MONDAY, 29TH OCTOBER, 1979

Present:

Sir John Hedley Greenborough K.B.E.(Host)	Chancellor of the Exchequer
Sir Raymond Pennock	Secretary of State for Industry
Sir Adrian Cadbury	Secretary of State for Trade
Sir Arthur Knight	
Mr. H. A. Whittall, C.B.E.	
Sir John Methven	
Sir Donald MacDougall, C.B.E.	
Mr. Richard Dixon	

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After dinner, Sir John Greenborough welcomed Ministers, and proposed a semi-structured discussion based on the agenda in his letter of 19th October (attached). He opened the discussion by outlining the themes he intended to pursue at the CBI's Annual Conference the following week. He would say that the CBI supported the broad thrust of the Government's policies; and that he accepted that the ball was now in management's court. But the perennial problems remained. Reality must be faced without defeatism. It was not just Trades Unionists who had yet to adjust to the new freedoms. He hoped that the Conference would provide the backcloth to a broad and thorough discussion. A main objective would be to help management to explain the relevance of the Government's policies to their shopfloors. The other main issue would be the fundamental problem of righting the balance of power between management and unionised labour. The CBI's idea of a mutual insurance fund would be launched.

2. Sir John Methven said that the CBI's extended data bank suggested that pay settlements in the private sector were running at or above levels reached last year. Although the Government's approach to economic policy was undoubtedly kindling a new spirit, this was not manifested in day-to-day negotiations on the shopfloor. In his view, it would be cause for relief if settlements could be

contained to the range 13 - 16 per cent, however distressing the sentiment may be. Picking up Sir John Greenborough's point, he regarded the central problem as enabling individual companies to get across to the shop floor the dangerous consequences of settlements at unrealistic levels. He observed that over the past year the public sector had in fact led the private sector; at least the latter had been de-manning. The Clegg Commission was a further complication, and the Government was still conceding pay increases in the public sector which were incompatible with their broader policies. In short, he himself was very anxious about the progress of the present pay round.

3. Sir Geoffrey Howe agreed with Sir John Greenborough that reality must be faced. There was little point on this occasion in ranging over the now familiar problems of world economic stagnation and the UK's relatively poor performance. It was a policy of despair to suggest that our problems could be escaped by progressive depreciation of the exchange rate. He too was concerned about settlementsin the public sector. The Treasury was faced with acute problems in this area. Its role was to forecast as accurately as it could the cash resources which would be available, and then to fix cash limits; if these were unrealistic they were over shot; if they were set realistically, they influenced expectations elsewhere, with damaging effect. He had been struck in discussion earlier that day with the Welsh TUC how the union side had seen no connection at all between the future of the steel industry as a whole, and the problems at Hunterston/Ravenscraig. Clearly the whole tone of the public debate needed to be changed; he confessed to a quandary, in that his own speeches were criticised equally severely, on grounds either of excessive pessimism or undue euphoria. On the balance of industrial power, the Government was trying to redress the position as far as it judged sensible. He thought that most

CBI members would think the Government was going far enough; but were they really stopping short of what was necessary?

4. Sir John Methven said that everyone was against inflation, but that no one saw his own pay claim as fuelling it. There was a need for ingenuity in establishing this link in peoples minds. Managers on the shop floor must be armed with the right arguments. Institutions tended to concentrate on the macro economy; not enough effort was being put into the problem at micro level. The Chancellor commented that in the public sector there was no such discussion at shop floor level at all. Sir Keith Joseph thought that this was a bit harsh; the nationalised industries were making real efforts to eliminate their losses. He thought that a major problem was the perverse effects of redundancy payments. Because of the cushion these provided, individuals no longer felt a stake in the survival of their employers. Mr. Dixon commented that arrangements in the UK were no more generous than elsewhere; the fact that unemployment had lost its sting was a fact of life, to which management must adjust.

5. Sir John Greenborough said the importance of communication within the firm could not be overstressed. Managers had to turn themselves into communicators. The Chancellor thought it was essential that the Government should not underplay the vital message on pay. Specific examples should be quoted - e.g.Hunterston and the firm of ship repairers in Mr. Nott's constituency which had been forced out of business by the engineering strike. Sir John Methven said the CBI supported the Government's broad economic policy to the hilt. But the battle would be lost unless victories were won on the pay and public expenditure front. There was no sign that the Government was adopting new methods of getting its message across. The CBI on the other hand, was experimenting in many ways:- regular letters to member companies; tapes for managers; preparation of talking points; invitations to

trades unionists from Germany etc. Sir Raymond Pennock agreed that the Government could not escape its responsibility to put across the argument at national level. But management too was failing by conceding in individual battles over wages. The Government should say, and say soon, what the country can afford by way of wages. If it did not act decisively, events over the next six to eight weeks would result in an outturn of 17-20 per cent settlements for this year.

6. The Chancellor commented that the burden of this message would have to be that on average there would have to be a decline in real living standards. But such a stark message would have to be presented as positively as possible. Mr. Dixon thought that if this really was the message, neither the Government nor the CBI had yet begun to explain it. Sir John Methven disagreed. The CBI had not ducked the issue; even againstthis sombre background, where a firm improved its productivity, it was possible to concede pay rises above the general level of inflation. Sir Raymond Pennock accepted this as fair comment in a free economic climate. There were certainly companies that could afford generous pay rises. But the way in which companies' results were presented gave a highly misleading impression. For example, on a historic cost basis ICI's third quarter results were excellent; but they represented only a 3.3 per cent real return on assets. No company could in fact afford wage rises at or above the level of the RPI. This was another aspect of reality which needed to be exposed.

7. Mr. Whittall commented that the Chancellor was a lone voice; other Ministers had not hammered home the economic message.

8. Sir Adrian Cadbury then outlined the CBI's view of the immediate future. There was already a squeeze on profitability and liquidity, which would intensify. But there was no real evidence that either member companies or their bankers had taken aboard the

full consequences of the Government's monetary policies. The message he would try to put over in Birmingham was that companies must look to their cash flow, and take appropriate action. The CBI had no alternative but to produce a gloomy forecast. Economic discomfort in the short term future was unavoidable if growth was to be resumed. And the Government's policies offered the only route to growth. The Chancellor agreed that the message was uncomfortable. But maintaining monetary disciplines as a perimeter fence implied that some firms would go to the wall. There was no escape from this conclusion. Successful companies could be found, and they would survive the storm; but the weaker firms caused real concern. Sir Keith Joseph agreed with Sir John Methven that the liquidity position was in no way as serious as it had been in 1974-5. The present corporate sector deficit of £4-5bn would be as high as £9bn. if 1974/5 conditions obtained.

9. Sir John Methven said his discussions in Whitehall during the summer had revealed no new Government thinking on propagating the message. Outsiders must be brought in, just as the CBI had recruited the services of Brian Redhead. Sir John Greenborough thought that detailed analysis was needed of precisely who should try to influence whom; e.g. at which audience were Ministerial speeches directed?

10. The Chancellor observed that at least in private sector enterprises the market was a strong influence on decisions; this was absent from the public sector. Sir Raymond Pennock commented that it was cold comfort to companies paying wages beyond their means that things were even worse in the nationalised industries. Sir Keith Joseph said that the Chancellor's policies were in fact leading to a reduction in the proportion of resources absorbed by public sector. The number of people working in it was falling, and a better competitive base for the nationalised industries was being established.

11. Sir Donald MacDougall thought that it would be counter-productive to suggest that people should settle for a reduction in their standards of living, even if this were true. It was better to argue in terms of getting both wages and prices down. Sir Keith Joseph thought most of the public debate was misguided. Money supply was growing at an annual rate of some 11 per cent as compared with an inflation rate of say 17 per cent. The difference between these figures was the crucial factor. Sir John Methven thought this message lacked intelligibility and immediacy to the shop floor. His concern was to avert, by whatever means of communication he could muster, as many bankcruptcies as he could. If unemployment rose to very high levels, he was deeply concerned about the social consequences. Sir Keith Joseph pointed out that it took time to reduce the level of inflation by firm monetary policies. Instant remedies were not available.

12. The Secretary of State for Trade thought that the CBI and the Government would help their own case by ceasing publication of forecasts. Events would sort themselves out, given time. The removal of controls had set the Government well on the way to solving the fundamental problems; the basis of a self regulating system was now installed. Sir Arthur Knight commented that the new freedoms had come very quickly. It was up to employers to insist on real productivity improvements in exchange for generous pay settlements. This was possible where companies negotiated separately; but they lost control where settlements were made nationally.

13. Sir John Methven said that the next eighteen months would be a testing time. Good communications were the only way of keeping CBI members on the Government side when the going got rough.

14. Mr.Nott reverted to his earlier theme. We were all obsessed with crystal gazing. He would willingly free the Government from its commitment to publish the "Bray" forecast

by tacking an amendment on to one of his Bills in thepresent session. He took pride in the paucity of statements about statistics made by his Department. The Chancellor said there was no doubt that monthly examination of the entrails was unhealthy. But, like corporate finance directors, the Government had to produce a cash framework within which the economy could work. It could not avoid being drawn into detail where the nationalised industries were concerned. Sir Raymond Pennock said that the Government would have to explain its policies carefully; otherwise it would be voted out. Mr. Nott thought the tone of the evening's discussion was unduly pessimistic. Pessimism was self-fulfilling. It, rather than the lack of clear explanations was the real root of present problems. Sir John Methven disagreed. Ordinary people tended to take sensible decisions - e.g. in the various referenda - provided they were given a well argued choice. There was no downward risk in attempting to clarify Government policy. The Chancellor deplored the lack of informed commentators in the media. It was particularly difficult for the Government itself to get the message home to the shop floor. Mr. Dixon commented that the Government disposed of by far the largest information machine in the country. It should work on the more influential interviewers.

15. The Secretary of State for Trade thought that the one major area still to be tackled by the Government, and possibly the most difficult, was employment protection. The Opposition were disorganised, and now was the moment to act.

16. The Chancellor of the Exchequer raised the question of the CBI's mutual insurance fund (MIF). He thought such an instrument essential in the "balance of power"; but he was distressed at reports that the CBI was contemplating locating the fund in a tax haven. Sir John Methven said that this was certainly not the CBI's objective. But in order to be able to base the fund in the UK, certain conditions needed to be met:(a)premiums must be deductible

for tax purposes. (b) Taxation levels on investment income must be kept low. (c). Premiums paid e.g. by companies like Plessey should be includable for Government contracts. He hoped Ministers could help the CBI over these conditions; his advice was that at present location outside the UK would be advantageous from the taxation point of view. Mr. Dixon added that a further complication was that the fund would have to be established for six months before it could function, if it were set up in the UK.

17. The Chancellor said that any savour of tax evasion would make the fund markedly less attractive, and would cause positive harm to the CBI. Mr. Nott said he agreed; but that if there was anything he could do to help through Bills now on the stocks, he would gladly do so. The CBI should contact officials in the Department of Trade. The opprobium attaching to measures helpful to the CBI on this would be less than the damage done by an offshore fund. Sir John Methven said the timetable was tight. The scheme must be put together by December, and sold to member companies during December to March. A small number of participant firms would suffice; but the risk would have to be spread.

18. The Chancellor said that CBI must accept political reality. Their scheme must be compatible with the UK tax system, and the Government could not be expected to adjust the law in order to accommodate it. Nor could the CBI expect their scheme to be taken seriously if in order to work it had to be established in Lichtenstein. It may be that accommodation through legislation would be necessary; but the CBI should do its utmost to fit it to existing UK law.

19. Mr. Dixon said the advantages of going off shore were overwhelming. The CBI were well aware of the presentational disadvantages.

20. Sir Raymond Pennock said it was essential not to lose sight of the main point. The important thing was to rectify the balance of power; the right means must be found. Mr. Nott thought the Chancellor had stated the case too starkly. The "deemed strike pay" provisions, for instance, were no more politically difficult than adjusting the law to accommodate such a scheme. He would much rather do this than let the fund go offshore. The Chancellor said he very strongly supported the CBI's objective; but he remained strongly opposed to an offshore fund.

21. Sir John Methven expressed disappointment at the Chancellor's view. The fund was not even off the ground; it risked being still-born. The Chancellor had placed a major roadblock in the way of the scheme. This was a great pity, since it would make a very major impact on the industrial scene. Mr. Whittall commented that it would be embarrassing to CBI, not the Government; the latter could always disown the fund. The Chancellor said the CBI and the Government were fighting the same battle. Neither could disown the other.

22. Sir John Methven said he personally now accepted that an offshore fund was politically unacceptable. The fund however was vital; it must be got off the ground by September 1980; and the Government's help was needed. The CBI would, therefore, let the Chancellor and Mr. Nott have a memorandum on the scheme within two weeks. To meet the CBI's own deadlines, cast iron solutions would be needed by mid-January 1980.

MAH

M. A. HALL
2nd November 1979