



NOTE OF A MEETING HELD AT 11 DOWNING STREET WITH THE CBI
ON THURSDAY, 23 OCTOBER, 1980

Present:

Chancellor of the Exchequer	Sir Raymond Pennock)	
Mr. W. Rylie	Sir Terence Beckett)	
Mr. P. Dixon	Sir Douglas McDougall)	CBI
	Mr. R.E. Utiger)	
	Mr. Rigby)	

Summary

The purpose of the meeting was primarily to welcome Sir Terence Beckett as Director General of the CBI. The CBI took the opportunity to express their views on measures necessary for the recovery of the economy, and there was a useful discussion.

Detail

2. Sir Raymond Pennock said that while the CBI had not departed from its support of the Government's economic policies, it felt that for its part the Government had failed to carry them out, in particular with regard to the control of public expenditure. As he had pointed out repeatedly in other fora, particularly the National Economic Development Council (NEDC), the squeeze was biting savagely on manufacturing industry, because of the high exchange rate, the level of interest rates and increases in the charges made by public sector authorities and nationalised industries (particularly rates and energy costs); and efficient companies were in trouble as well as inefficient ones. The last $\frac{1}{2}$ million or so increase in the unemployment figures had come very largely from the private sector. He handed round the results of the CBI's latest industrial trends survey (attached), which were uniformly gloomy. There was a very urgent need for action. He felt he must repeat the questions he had asked at the NEDC meeting on 6 October, namely when would public expenditure be got under control, and when would there be some relief for industry.

1240/10



3. Sir Terence Beckett said that the boards of many companies had been forced to impose a virtual moratorium on investment decisions because of the negative forecast rates of return. He wished to focus particularly on the exchange rate, which was the single most important factor in the erosion of the competitiveness of manufacturing industry. It was commonly accepted that psychological factors were an important determinant of the exchange rate; and that these were not altogether rational. Could it not be talked down? If the high rate was largely due to the availability of North Sea oil - as seemed likely - it ought to be made clearer to the world how small was its proportion of Gross Domestic Product (6 per cent). He suggested that the reality of the plight of British manufacturing industry should be spelt out publicly; otherwise, as a result of the high exchange rate, large sections of it would be destroyed. Then, when the real situation became known, the exchange rate would plummet, to a level far below that which would result if the rate could be reduced now.

4. Amplifying this point, Mr. Utiger said it was recognised that there were risks in any attempt to lower the exchange rate. However, the situation for British industry was now so desperate, it was the CBI's view that the risks were worth running; indeed it would probably be worth taking several measures simultaneously - talking it down, bringing in controls on short-term money flows and lowering Minimum Lending Rate. The Government should make a clear statement that it regarded the exchange rate as far too high, in the light of the vulnerable and depressed state of British manufacturing industry. On inflow controls, the CBI's conclusions were that such controls would involve considerable bureaucracy, and would have some effect for six to nine months, but after this they would become less and less effective. But this short term relief was desperately needed, and it might on balance be worth the admitted disadvantages of such controls to achieve it. It had to be recalled that most of the experts who pronounced on this subject had a



built-in prejudice or vested interest against controls. Finally, the CBI would like to see an early reduction in National Insurance Surcharge, which placed a heavy burden on industry. Although the Chancellor had said in the past that relief for manufacturing industry in this form would be too unselective, the CBI believed it could show this was not the case. (In the event there was not time for this to be discussed further.)

5. In reply, the Chancellor said that much of what the CBI wanted to happen, the Government wanted also; and it had tried very hard to deliver. But many of the developments attributed to Government policy were in reality not attributable to it. Several things had come together at once, compounding the basic problems of the economy set by the long-run decline in competitiveness and the level of inflation. These were the high exchange rate, due in part to North Sea oil, high interest rates and the recession. On the question of interest rates, it had to be remembered that the real rate in the UK was not out of line with those in other countries, ie after allowance had been made for differences in inflation rates. There was no real scope for a substantial reduction unless the world became a very different place; and even then, there was no certainty that a reduction in interest rates would have a significant effect on the exchange rate. Very real efforts were being made to check public spending; but it was becoming increasingly hard to make cuts in public spending which did not have damaging effects on private industry. Energy costs had been mentioned, but any attempt to reduce the level of increases would have a significant impact on the Public Sector Borrowing Requirement. Attempts were being made to improve the efficiency and productivity of the nationalised industries concerned, particularly the National Coal Board, but it was bound to be a long haul. On the exchange rate, it was no secret that a great deal of thought had been given to this problem, and all the possible options for getting it down had been considered. The trouble was precisely the irrational and to some extent unknown nature



of the factors that determined it; and the history of past attempts to influence the rate was not encouraging. However, he would see that full weight was given to what the CBI had said on the subject.

6. Further discussion turned to the prospects for pay. The CBI representatives said that the Government should pay very close attention to its strategy in the coming round. It should take each negotiation separately on its merits, identifying the risks and problems which would be involved in facing industrial action of varying durations. If the Government had to face a strike in the public service area, the CBI's view was that it would be defeated by public opinion, and the CBI would give the Government all the support and help it could. There was much greater acceptance in the private sector than hitherto of the need for settlements to vary according to the ability to pay; and the same flexibility should apply to the public sector, when the general rate must be held below the Engineering settlement. The CBI felt there was still a case for a real national forum in which pay could be publicly and realistically discussed. The union leaders should be forced to face reality in public, rather than in private, so that the message really got across to their members.

7. In reply, the Chancellor welcomed the CBI's offer of help and support, and added that anything it could do to get the message on pay across would be extremely useful. The prospects in the public services, where the Government was either the employer or paymaster, were looking reasonably good; in the nationalised industries more difficulty was anticipated, but efforts had been made to reduce the expectations of both the employers and unions concerned. He too would welcome realistic discussion with union leaders on pay, as he had made clear in NEDC, but he doubted if their attitudes at present would permit this, let alone a public forum.



8. In conclusion, the Chancellor thanked the CBI for their forceful and persuasive presentation. The diagnosis was clear enough; the right answers, as he had attempted to show, were less easy to find.

PSJ

(P.S. JENKINS)
23 October 1980

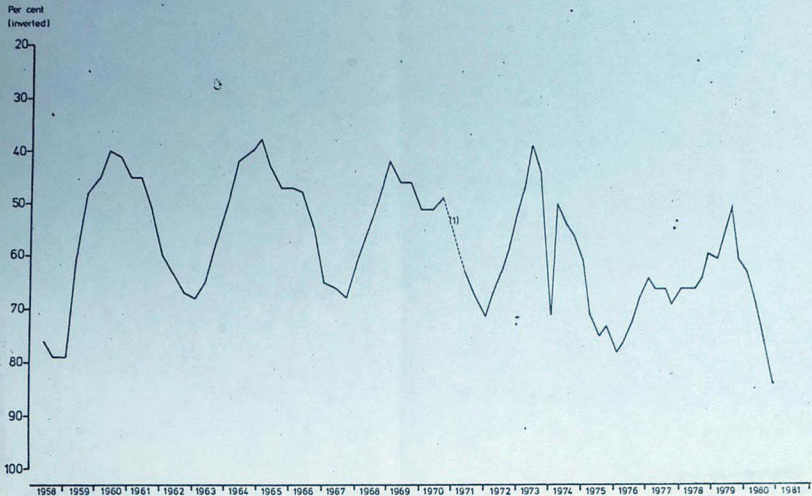
Distribution

Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Anthony Rawlinson
Mr. Ryrle ..
Mr. Burns
Mr. Middleton
Mr. Bailey
Mr. Unwin
Mr. Dixon
Mr. Littler
Mr. Lovell
Mr. Lavelle
Mrs. Heaton
Mr. Peretz
Mr. Rayner

CBI INDUSTRIAL TRENDS SURVEY

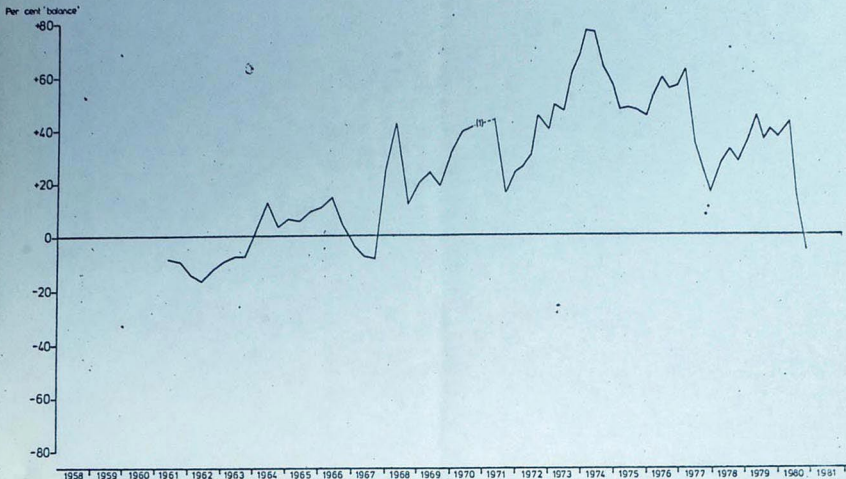
Confidential

Q 4 Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation.)



(1) Survey 40 (Feb 1971) was abandoned owing to the postal strike

Q 12 b What has been the trend over the past four months with regard to the average prices at which export orders are booked .

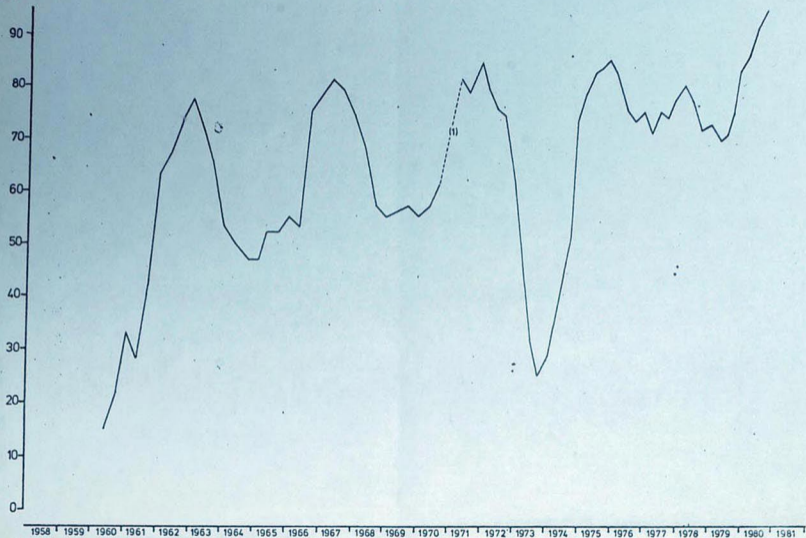


(1) Survey 40 [Feb 1971] was abandoned owing to the postal strike

CBI INDUSTRIAL TRENDS SURVEY

Confidential

PerCent Q 14 Is shortage of orders or sales a factor which is likely to limit output over the next four months



(1) Survey 40 [Feb 1971] was abandoned owing to the postal strike

CBI INDUSTRIAL TRENDS SURVEY

Confidential

Q 15 Is the price of your exports (compared with those of overseas competitors) a factor likely to limit your ability to obtain export orders over the next four months.

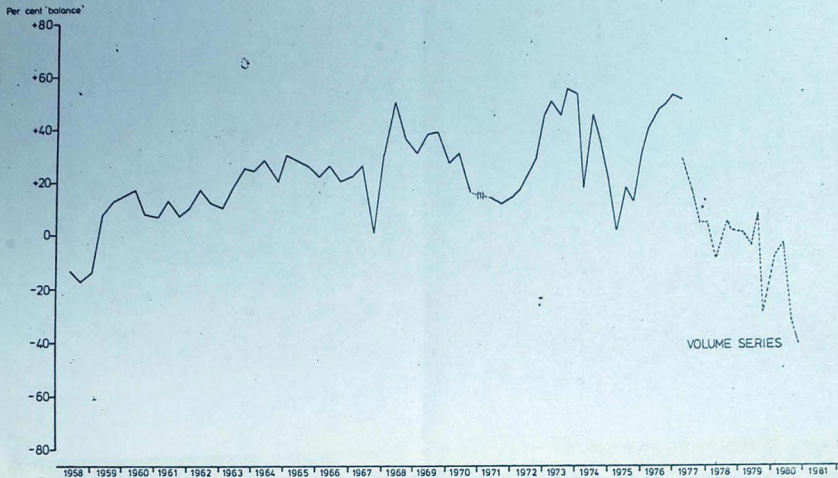


(1) Survey 40 [Feb 1971] was abandoned owing to the postal strike

CBI INDUSTRIAL TRENDS SURVEY

Confidential

Q 9b What has been the trend over the past four months with regard to the value of export deliveries .



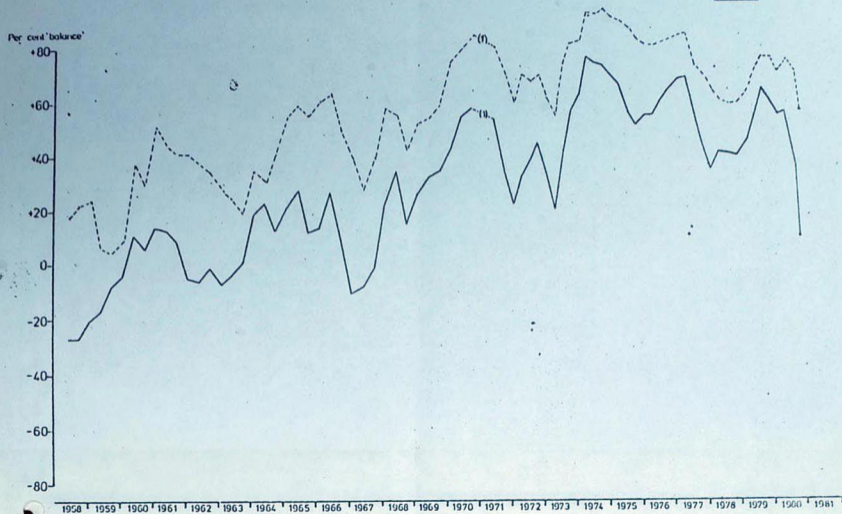
(1) Survey 40 (Feb 1971) was abandoned owing to the postal strike

CBI INDUSTRIAL TRENDS SURVEY

Confidential

Q 11 What has been the trend over the past four months with regard to the average costs per unit of output

Q 12a What has been the trend over the past four months with regard to the average prices at which domestic orders are booked



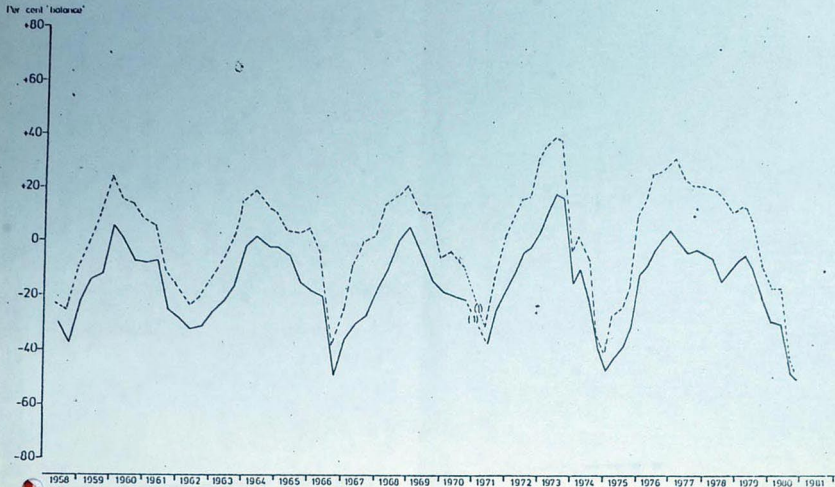
(1) Survey 40 (Feb 1971) was abandoned owing to the postal strike

CBI INDUSTRIAL TRENDS SURVEY

Continued

Q 3a Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on :

BUILDINGS ———
PLANT & MACHINERY - - - - -



(1) Survey 40 [Feb 1971] was abandoned owing to the postal strike