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SUBJECT



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Mr Waker
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10 DOWNING STREET

From the Private Secretary

14 May 1981

Dear Sir,

As you know, Sir Raymond Pennock and Sir Terence Beckett called on the Prime Minister on Tuesday afternoon. The Chancellor was also present.

Sir Terence first gave a slide presentation of the CBI document "The Will to Win". This, we were told, was a shortened version of what they are presenting to their members throughout the country. It followed the CBI document very closely.

There followed a general discussion, little of which is worth reporting. However, the following points may be of interest.

- (i) Referring to the Green Paper on trade union legislation, Sir Terence said that many of their members were taking the view that the law could not continue unchanged in the long run. He said that the CBI's Working Party on this issue, under Sir Alex Jarratt's chairmanship, would be reporting in July. One idea which the Committee was exploring was the proposition that if the trade unions and their members operated within the terms of collective agreements, then they would have the protection of the existing immunities; if, on the other hand, they were in breach of such agreements, they would not have this protection. There seemed to be a considerable body of support for this; but it raised a number of questions. For example, it would mean making provision for arbitration between the parties to collective agreements; and some employers would be opposed to this.
- (ii) Sir Terence described the kinds of things that the CBI would be saying to their members at their forthcoming pay conferences. One fundamental point was that employers should never reveal in advance the limit to which they would be prepared to go in pay negotiations. Under the present cash limits system, the Government seemed to ignore this. The Prime Minister explained that Ministers were aware of this problem, and that was why they were considering introducing some greater flexibility into the cash limits system.
- (iii) Sir Terence said that pay negotiators were likely to have a more difficult time in the coming round because of the general feeling that the economy was levelling out. It was

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absolutely crucial that pay increases should be kept down to "middle single figures"; otherwise, there was a real risk of inflation taking off again and of the recovery being aborted. He hoped that Ministers would not sound too euphoric about the economic prospect; if they were too optimistic, this would encourage trade unions to expect excessive pay increases.

- (iv) Sir Terence said that there were likely to be localised skill and material shortages in the near future. He did not expand on this but as regards skill shortages, I think he was referring to the reduction in apprenticeships because of the recession.
- (v) Sir Raymond said that ordinary people did not seem to comprehend the enormous increase in oil prices over the last 10 years, and the effect this had had on industrial costs and on real demand. He was fearful that there might be another "flash-point" in the Middle East, which could easily send oil prices spiralling up again, and of the further damaging effect that this would have on Western economies. More needed to be done to get people to understand the baneful effect of rising oil prices.
- (vi) There was some discussion of the importance of improving UK competitiveness - both price and non-price. Sir Raymond pointed out that there was scarcely anything in the TUC's pre-Budget representations about competitiveness. Yet deep down, many trade union leaders understood its crucial importance. He wondered whether it would not be possible to establish some kind of bipartisan industrial policy. It ought, in his view, to be possible to persuade the Labour Party to support a few simple economic truths.
- (vii) Sir Terence said that CBI members were very worried about nationalised industry price increases. Sir Raymond said that nationalised industry managers would be attending the pay conferences and they would do everything possible to bring influence to bear on them. They would consider having a special item on nationalised industries at the conferences.
- (viii) Sir Raymond referred to the importance of communication within companies. It was essential for managers to keep working at this. The CBI were currently conducting a survey of communications practice in member firms.
- (ix) Sir Terence made a plea for further reductions in Government current spending. The CBI Working Party on Government Spending, which would have Sir Leo Pliatzky as a consultant, would be submitting an interim report in July.

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I enclose some notes which Sir Terence handed to the Prime Minister during the meeting, and which he drew on in the discussion.

I am sending a copy of this letter to Ian Ellison (Department of Industry).

[Handwritten flourish]

T. L.

A.J. Wiggins, Esq.,
HM Treasury.

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