



INSTITUTE OF DIRECTORS

From the Director General

Director General
Walter Goldsmith

Rt Hon Margaret Thatcher MP
The Prime Minister
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New Prime Minister

I thought that I should let you see the text of a press release which the Institute has issued in the light of calls from some business organisations to reflate the economy.

It restates the support of the Institute for the present government's policies and in particular the government's attempts to continue to bring down inflation and curb public spending.

Walter Goldsmith

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P.S. I am quite convinced from countless discussions and I.O.D. branch visits that businessmen throughout the country are against reflation - whatever else may be claimed. We shall make the evolution of this public over the coming months W.G.

Evon Rd
Prime Minister (2)

*(am acknowledging
and thanking W.G.*

MS 27/7



23 JULY 1982

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PRESS INFORMATION

RESIST C.B.I. CALLS FOR REFLATION DIRECTORS URGE GOVERNMENT

The Prime Minister is right to resist panic calls for general reflation to stimulate the economy, the Institute of Directors said today.

Members of the Institute of Directors said consistently, in 1979, 1980 and 1981, that the defeat of inflation and gradual and continuing lowering of interest rates should be the Government's major economic objectives to help business recovery, and they still do today, the Institute said. The CBI's reflationary proposals run directly counter to achieving those objectives and cannot therefore be supported by the Institute of Directors. Nor does the Institute anticipate a change in policy by the Prime Minister or the Chancellor.

The nature of economic upturn will be patchy, uncertain and slow across the economy. But company investment and profitability levels are already showing signs of encouragement, particularly in distributive and service industries. There is a stream of improvements in company performance, some dramatic.

It is the essence of the Government's economic restructuring that innovative and adaptable companies will prosper but that transition for older industries in decline will be painful and, unless tough decisions are faced, protracted. This owes less to Government policies than to the realities of competition in a depressed world economy.

Across a considerable part of Britain's economy the same labour monopolies, restrictive practices, old fashioned production techniques, limited sales and marketing skills and poor management information systems which led to Britain's major decline in competitiveness between 1974 and 1979 still persist. It is wholly unrealistic to expect that these factors can be squeezed

out of the economy without further closures and redundancies, or that some blanket economic stimulus will generate a turn-round.

Company performance currently varies from spectacularly good to extremely poor and examples of each can be found across every sector of the economy and in every UK region.

It is misleading, therefore, to attempt to string together factors which are causing general business concern and present the result as an accurate summary of the prospects for commerce and industry in Britain.

In particular, it is unhelpful to seek to place responsibility on government policies for a more general sluggish growth in output which is common to Western European economies.

Businessmen are extremely concerned about the slow emergence of the British economy for recession. They share a wider public concern over unemployment levels, which the Institute would not now expect to begin falling until September or October 1982.

But members of the Institute recognise the efforts of the Government to secure a steady and natural fall in interest rates, and welcome a new preparedness to achieve this goal even at the price of some weakening in the strength of sterling.

Nor do members of the Institute of Directors accept suggestions that economic stimulus should be achieved by the injection of further funds into the public sector of the economy, whether for capital or revenue spending. The scale of misallocation of existing resources in nationalised industries, where a capital stock of almost £100bn achieved a rate of return of -1% in 1980-81, justifies a reduction rather than an increase in the share of economic resources comprised in the public sector.

Higher public spending is the cause of, not the solution to, Britain's economic problems. The inflation it would generate would handicap Britain's successful companies in order to prop

up those in decline.

The Institute considers that the following factors indicate the scope for responsible optimism about economic performance in 1983:

- * Longer leading economic indicators suggest subsequent and continuing recovery after a trough in activity in the second quarter of 1982
- * Consumer expenditure held steady between the last quarter of 1981 and the 1st quarter of 1982
- * The volume of capital expenditure in the manufacturing, distributive and service industries rose by some 5% in the first quarter of 1982 to return to 1980 levels
- * Britain was the only large industrial nation to report a rise in industrial production in April. It declined in other leading industrial nations by 0.7%
- * Real company profitability rose to over 3½% in the second half of 1981 and may, because of the way in which redundancy payments and rates are treated in the statistics, be underestimated
- * Current company results suggest profit growth is being maintained: 44 company results out of 58 reported in this week's Investors Chronicle show improved profits or diminished losses - a picture dramatically at odds with suggestions of unmitigated gloom and decline
- * Since the first quarter of 1981, the UK's labour cost competitiveness has improved by perhaps 15%
- * Local authority rates went up less this year than in 1981

- * Nationalised industry charges, which had been running at between two and three times increases in the private sector, have been dramatically reduced and are broadly in line with inflation
- * Company births outnumbered deaths in 1981 by 15,000 with wholesale, catering, retailing and production industries having above average start-up rates
- * Fuel and raw material prices - major ingredients in manufacturers costs - were unchanged between August 1981 and May 1982.

All these are real and significant improvements which bode well for Britain's competitive position in a changing world economy. To threaten them now by policies embracing the mutually contradictory aims of increased public spending and declining interest rates would lead to a major collapse of confidence in the British economy at home and abroad.

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