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Michael Scholar Esq.
Private Secretary
No. 10 Downing Street
London SW1

10 November 1982

Dear Michael,

The Chancellor thought that the Prime Minister and other Cabinet colleagues might be interested to read the full text of Sir Terence Beckett's speech to the CBI Conference in Eastbourne, if they have not already seen it. He would like to draw their attention in particular to the passage on pay on pages 9 and 10 which he considers most helpful.

I am copying this letter to the Private Secretaries of all other members of the Cabinet.

Yours sincerely,

Margaret O'Mara

MISS M O'MARA

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CBI'S SIXTH NATIONAL CONFERENCE, EASTBOURNE 1982

TEXT OF CLOSING SPEECH BY SIR TERENCE BECKETT, DIRECTOR GENERAL OF THE CONFEDERATION OF BRITISH INDUSTRY

AS CHECKED AGAINST DELIVERY

President, Ladies and Gentlemen:

We've come almost, as you just said President, to the end of our sixth Conference. This is the opportunity we have during the year to review and discuss our policies as a whole. And I hope like me you've found it useful and informative. It's a vital guide to us in assessing your opinion. It's proved its worth again.

To me, the chief value of yesterday morning, in our debate on economic policy, was the strong support you continued to give to the basic policy on the need for better competitiveness.

As far as the Resolution on the value of the pound was concerned, opinion has always been divided in the CBI on this issue. The differences are not due entirely to where a member's company finds itself as primarily an exporter or an importer.

There is a genuine concern as I know in some importers' minds that unless industry in this country becomes more competitive they will lose customers for their imports. Some exporters doubt whether a devaluation would give them a lasting advantage in competitiveness. Because it hasn't in the past.

And in the particular Resolution chosen there was genuine scepticism on the practicality of asking the Government to lower the value of the pound.

Yesterday's debate, if I may say so, certainly indicated the CBI has, as we have claimed for some years now, a much broader membership than manufacturing. It does represent industry and commerce as a whole.

Standing back, if I may say so, from the immediate pros and cons on this complex issue, the message I think we ought to be sending from this Conference, which everyone in the CBI would support, is we do not want a soft option.

the afternoon debate on unemployment and training, your concern came through clearly. We need to continue that discussion, as we said, in the months ahead; both to determine how we carry out your proposals and whether you have any additional ideas on bringing them to fruition. I'm encouraged by your response. We have got a strategy that you've endorsed for doing something about unemployment and training and you have demonstrated your commitment.

This morning, on our discussion on pay and the future we re-emphasised the all-important need to improve your competitiveness, which lies at the heart of everything you are doing - on this need and the difficulty we all have of looking into the future and the need for innovation. When the Wright brothers got their first plane off the ground, one forward looking chap said that if the Lord had intended us to fly he wouldn't have given us the railway train.

Now thinking over all that has happened during this Conference, how do we form an overall view of where we are?

Industry has had a turbulent time over the last few years. Murphy's Law has seemed to many of us to be almost as universally applicable as the law of gravity and you will remember O'Toole's commentary on Murphy's Law: "Murphy was an optimist".

We can sympathise with the man who said: "When you're up to your armpits in alligators, it's sometimes difficult to remember that your original priority was to drain the swamp!"

What I should like to do, if I may, this morning is to try to determine where our priorities should be at three different levels:

1. Internationally;

2. At national level; and thirdly

3. At the company or individual level.

want first of all to lift your eyes from the domestic to the world scene, to deal with international trade because this has now become the greatest problem we all face.

You know where we are on getting orders overseas. Your counterparts in other countries are now fighting harder than ever for their share of world business. You have not left it to your salesmen. You have travelled the world yourselves in recent months and some of you have come home with less new work and all of it at lower profit margins.

This doesn't only bite exporters, of course. Indirectly it will come home to the whole of industry and commerce, because we can't live in this country just by taking in one another's washing. The level of world trade matters more to us in the United Kingdom than it does to other countries, as was said yesterday, because 30 per cent of our GDP is in world trade. No other country is so dependent on world trade.

For that reason, we, above all other countries, cannot afford to encourage or foster protectionism, although we certainly must resist unfair trading practices by others. To break the world up into protectionist blocks would further reduce the available volume of trade.

But protectionism is not the only reason why world trade is contracting. It is due also to low overall demand, to high interest rates - and these are still too high - weak non-oil commodity prices and concern about financial stability in some countries and institutions.

The fact that we in Britain are less competitive than we were in the seventies makes our job a lot harder, but I will deal with that, if I may, in a minute or two when we come to our national and company objectives.

We in Britain cannot be complacent about the level of world trade. We have got to do everything in our power to promote it and lift it.

ome hope that America will be the locomotive to pull the world out of this recession. They point to mid-term elections and Mr Volker's promise of a little more flexibility in monetary policy. But America's number one priority is still the conquest of inflation. It is worried about its imports and its competitiveness. Its growth in productivity, you know, is poor and its saving rate is low.

With a fall in interest rates, most authorities in America forecast some modest growth in 1983 but we do have to question whether a turnaround in activity in America will be strong enough, or quick enough, to reverse a world trend, which is moving towards stagnation or worse at the present time.

If America is not likely to restore much real growth to trade in 1983, what other international co-operation should we look for?

The Versailles Summit in June was not a success.

If only we could get America, Japan, Britain, France and Germany together. And if we all had the will, we could do something about world trade and world demand. We would also need to look at interest rates, exchange parities, the provision of more development loans to the Third World, and the restructuring and the partial forgiving of loans to the Third World. The difficulties in practice are immense but the need is there.

We welcome this - footsteps on our part

The CBI has taken the initiative in recent weeks with our sister organisations in Europe and in OECD to see whether some progress could be made in this direction.

An act of imaginative statesmanship is called for on the scale of the new deal in America in the early thirties, the setting up of Bretton Woods and the World Bank at the end of the last war or the Marshall Plan which reconstructed Europe after the war. I am not, of course, suggesting that these are the forms we should follow, because these initiatives were shaped to meet the needs of their time. But this is the kind of creative approach we need. We all exaggerate at times the power of governments to bring about change, but occasionally initiatives are proposed which catch the imagination and the hopes of their people. Governments are then effective.

To the extent we feel sceptical about the major countries' abilities to co-operate in this way, and I have got to confess I am not very hopeful that this will happen in the immediate future, to that extent that we have to reconcile ourselves to a much slower world rate of growth for several years at least. If we accept this as probably being the case it must strengthen us in our belief that our progress as a country and at company level depends crucially and ineluctably on the policies that we in the CBI have advocated consistently for a long time now: lower inflation and better competitiveness.

Turning to the national scene, when I spoke at this conference two years ago I stressed CBI concern that industry had been bearing the whole brunt of bringing inflation down. Government spending was too high, even allowing for the costs of the recession.

In particular, following the 1980 Clegg awards and 25 per cent settlements, pay in the public services was threatening to eat up industry's seed corn when it was already fighting for its life.

I don't think that anyone now would claim that our warnings of two years ago were wrong.

The differences of emphasis this last summer on whether there would be an upturn in the second half of the year were more trivial than the public were led to suppose from what they saw or read. The CBI said - because you told us so - that the economy looked flat for the rest of the year. This touched a nerve, but it was true. We and the Government were disappointed that the export-led recovery was not there as we had both anticipated earlier, to lift the economy off in the second half. Their forecasts and ours, if you like, were just a bit out of synch. We don't disagree on the position today.

hen you think of it, it is a bit of a problem to some people who aren't in industry when we publish our Trends forecasts. They tell us it can't be as bad as we say and then they have to pretend to be more cheerful than they feel to try to counteract our message. We, for our part, insist it is as we say and because we don't think they believe it, and we are actually knee-deep in it, we have to be very insistent that this is the way it is.

I am reminded of the exchange between S J Perelman and his taxi driver who had just dropped him off at his office in New York. The taxi driver gave him the customary enthusiastic farewell, a bit like some of our well wishers do, by declaring in ringing tones: "Hev a nice day". Perelman looked at him with distaste and said: "You keep your nose out of it. I'll decide what kind of a day I'm going to have."

The fact of the matter is that 90 per cent of our survey is concerned with actual production and actual sales in the last four months, and so on. Because it is concerned mainly with facts, not opinions, it has achieved an enviable reputation for accuracy.

But on both the appreciation of the situation we are in, and on policy proposals for the future, our position is genuinely close to that of Government. As Sir Geoffrey Howe said, the differences between Goverment and the CBI have been exaggerated. And I would agree with that.

Government has got its spending down. It has cut its pay increases, taking two very difficult strikes in the process.

Only those of us who have taken long strikes know exactly what they have experienced, by the way. We don't want to get Government spending down just to achieve equality of misery with the productive end of the economy. It is much more fundamental than that. We want public spending down because unless there is a better balance between Government and enterprise, between spending and earning, then industry's capacity to improve standards of living and provide jobs will be hopelessly impaired. Our enterprise system, and in the end, our personal freedoms, are at stake.

Because Government has cut its spending and borrowing it has been able to reduce the burdens it imposes on industry. In the Budget we did get a response to CBI requests for a reduction in the National Insurance Surcharge, amounting to £800 million a year, reductions in energy prices of £200 million to make them more competitive with prices in Europe, and there were a large number of other concessions to help smaller firms, the building and engineering industries.

Since the Budget, bank interest rates have come down from 13 per cent to 9.5 per cent. Hire purchase restrictions have been removed. Only last week a programme of 21 by-passes has been approved as a contribution towards a roads programme and to make the heavier lorry more acceptable. The Government has assured us incidentally of their support for the heavier lorry which will enable our road transport system to move goods at costs comparable with those on the continent to improve our overall competitiveness and provide more jobs. So we are making progress.

The Chancellor told us in his Mansion House speech two weeks ago that he is prepared to be flexible in his monetary policy, without a drift into laxity. We warmly welcome the first part of that proposition and we promise our complete support for the second.

Well said

His statement is not a change in policy. It arises first of all from the successful prosecution of that policy by getting inflation down to 5 per cent by next Spring. Secondly we do have in this country a lower Government deficit now - as a share of GDP - than any other major industrialised country. Thirdly, borrowing is substantially undershooting the Government's objectives this year, in the same way it did last year.

The Chancellor is anxious that his monetary policies should not be too restrictive. There is room to move. The need is there. We must use the flexibility we now have where it will do most good.

'ow on income tax, most of us would certainly agree, and it did come out very fully in the debate yesterday, that we want thresholds indexed for inflation anyhow.

Beyond that, Government must quickly make its mind up on the balance between increased consumption-spending versus the competitiveness of British industry; in particular, National Insurance Surcharge versus income tax. It would be a pity if the stance in the Budget over-encouraged imports, and did not support industry in the Government's previously avowed aim of making British industry more competitive.

Let us examine, once again, the National Insurance Surcharge.

The National Insurance Surcharge reduces our exports in a desperately difficult competitive world. Our competitors overseas don't pay this tax. The National Insurance Surcharge increases imports. This tax is not paid on imports. The National Insurance Surcharge is a tax on jobs when we've got three and a third million unemployed and rising.

It was a cynical impost added by Mr Healey to satisfy the IMF. This Government doesn't have to kow-tow to the IMF. The National Insurance Surcharge is prejudicial to the national interest. It is a perversely bad tax. It should not be reduced. It should be abolished.

Let's now turn to the company and personal scene:

The prime problem you face at company level is how to tackle your remaining lack of competitiveness. If this continues, you will lose share.

But to lose share in a stagnant or contracting world market is a miserable and unacceptable prospect. You must resist it. It is your job at company level to get this competitiveness right, once and for all.

The Government can help. But in the final analysis the greatest part of the rememdy is in your hands. And I get tremendous encouragement from the way that debate went yesterday. It reinforces this at every point of the way.

n the 'Will to Win' and 'Agenda for Recovery' that the CBI published just over twelve months ago, two thirds of all the action points listed to get the country going again were in your companies' own hands, not in the hands of Government, Trade Unions or employees, although of course we need all of their help.

Self help is paying off. Your labour cost per unit in industry only increased by 5 per cent last year. This is well below the average for the OECD, which is a very considerable achievement, but you can't relax. The Germans and the Japanese have done even better and Britain is still 35 per cent uncompetitive in unit labour costs versus the rest of OECD which is completely unsatisfactory.

Our CBI pay conferences, as Lord Pennock said this morning, have done a very useful job in reviewing the competitive situation and indicating ways in which you should handle your pay negotiations.

There is a dangerous new philosophy on wages, and perhaps this is not so new, that I would ask you to examine, to make your minds up on it, and then thoroughly to take it on board with your people.

This philosophy says and you come across it every day of the week: "We can understand industry can't make large wage increases now, because you are in such trouble, but if only you would increase your wages, this would increase demand, provide more jobs and we could be back in the happy days we used to know". Now this view is already held by trade unions, many local authorities, a large part of the general public and even by people in your middle management, people of good will and muddled heads.

It took seventy years from the first brush stroke to make impressionism a popular school of painting and it took thirty years for Keynes' general theory to be accepted finally as popular dogma. And it happened just at a time when it became clear that general theory was not general enough to cater for an inflationary age.

Boosting wages to cure our unemployment problem is a dangerous octrine today - when we are fighting off a 35 per cent burden of uncompetitiveness and also potentially when things begin to improve.

Unless we have eradicated that uncompetitiveness, our pay increases have to be less than those of our competitors overseas, and our most impressive competitors pay very low increases, year in, year out.

We have got to get the message down the line on pay, and once and for all remove the illusion that the Emperor's clothes can be woven out of fresh air.

Zero general wage settlements should be seriously considered now that inflation is coming down to 5 per cent and lower.

To provide more jobs we have in some cases to price people back into work. Austerity is philanthropy in Britain today. What we did with pay in the seventies, you know, as Lord Pennock said, did no-one any favours.

The responsibility for wages is inescapably yours.

We must continue an unremitting drive to improve our cost and non-cost competitiveness and our profitability.

The products and services we plan to provide have to be ceaselessly re-examined to make sure they are what the customer will want in the years ahead.

You remember the President of Doggo Dog Food Inc. addressing his national sales force. He had just got to the point in his flip-over chart presentation where the sales curve had fallen off the bottom of the sheet when he said: "Fellas, I am real worried. We've gotten the most nutritious dawg food in the business. It's attractively packaged and priced. You men are the most capable dawg food merchandisers in the country. You are backed by the biggest coast to coast television advertising campaign in dawg food history. What I want to know is why ain't we sellin' more dawg food?". There was a terrible pause, then a young inexperienced salesman stood up and he said: "Somebody's just got to tell you boss, da dawgs don't like it."

Ladies and Gentlemen, unless you've got your product right you've got nothing.

And the pressure's on.

We are not in a recession, we are in a revolution. Technology won't be the constraint, but people. People's acceptance of change. Sharp in Japan has six people producing 6 million calculators a year, and robots there are making robots. I will repeat that because that's what the robots are doing, robots are making robots.

We have to be quicker on our toes in this country and we can only move more quickly, as was said so well this morning, by involving our people.

If we want to bring about the kind of change we need in our economy we must involve our people. Jim McFarlane I thought put it extremely well this morning, certainly if we don't, unworkable schemes will be imposed on us, in a way we won't want, by Westminster or Brussels.

Above all each company must try to buck today's trend. There are marvellous examples all over Britain. We need more of them. This is the way trends are reversed. Let me give you just three out of hundreds:

Boxmore Ltd in Northern Ireland is in packaging. Twenty per cent of its costs are for energy which is priced to them as high as the highest in the United Kingdom and that is saying something. This company has invested a great deal of money in the past few years. This year its sales volume is up 11 per cent and its turnover is up 17 per cent over last, and that's in that troubled part of the United Kingdom.

Sinclair is making more home computers than anyone else in the world. More than any companies in America or Japan.

As we heard this morning, Lord Sieff is selling Marks and Spencer shirts, made 100 per cent in Britain. In Hong Kong above all places. They are selling very well and Marks and Spencer you know, never sell anything unless it's profitable. The reason? They make good shirts. And I think what is important to remember is that we are forecasting growth next year.

The CBI is forecasting growth next year, nothing very spectacular but it will be there and with good management in Government and industry we can build on it.

Summing up and looking on the three areas of priority I described at the beginning: at international, national and company levels - the needs are more demand internationally and with greater flexibility at national level we need Government to join companies in a drive for greater competitiveness.

In conclusion, there are three things - three specific things - I would ask you to do:

1) Invest in our youth. Make the Youth Training Scheme work. You must be able to look young people in the eye and say: " I am doing everything I can to help" and mean it.

2) Get the message down the line that you have to continue to get your labour costs down by good management and more productive activity, because that's the way to beat the competition and to provide jobs and security for the future.

3) There is hope! There will be growth next year, modest overall and patchy. Don't be too sceptical about it. I know you will run with it but over and above what immediately presents itself, what should be done. Sir Kenneth Corfield this morning quoted Sir Francis Bacon, and I thought he was using the same quote, but it was another one - and the quotation I would like to give you this morning from Sir Francis Bacon is "A wise man will make more opportunities than he finds".

To return to the basic theme of this Conference: "Work for Britain". If you will work for Britain, and I know you will, we can and will provide work for Britain. This will then begin to lift the shadows to make this country once again a prosperous and happy land. That's very well worth working for.