

SUBJECT



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10 DOWNING STREET

From the Principal Private Secretary

27 June 1983

Dear John,

MEETING WITH THE CBI

Sir Campbell Fraser and Sir Terence Beckett called on the Prime Minister this morning. The Chancellor of the Exchequer and the Secretary of State for Trade and Industry were present.

Sir Campbell Fraser and Sir Terence Beckett, after referring to the CBI Trends Survey being published today, said that the recovery was still thin and patchy. They would describe the current state of the British economy as at "red/amber" and the current task was to turn it to "green". After discussion, it was agreed that this phraseology might be misunderstood if used publicly, since it might be taken as a description of a task for Government policy: a better way of putting it would be that the British economy was now in first gear, the immediate task was to get it into second gear and the longer-term task was to get it into top gear.

Sir Campbell Fraser and Sir Terence Beckett said that there were a number of matters which they would wish to raise under the heading of this general objective and the following points were covered in discussion:-

- (i) The CBI representatives said that some energy-intensive industries were likely to contract further in the period ahead. To some extent this was inevitable, but it was also partly the result of excessive energy costs. The NUM's actions, designed to protect jobs in coal mining, were destroying them in other industries, and the recent report by the Monopolies and Mergers Commission had shown that the NCB was selling coal more cheaply - in some instances, at £10 a tonne less - in Europe than in the United Kingdom. The CBI were not so much asking for subsidies, but for the opportunity for British industry to compete on fair terms with Europe. The Prime Minister and the Chancellor of the Exchequer commented that action was being taken to make the coal industry more efficient.

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- (ii) The CBI representatives said that they were absolutely in step with the Government on trade union reform. They would also deliver the 300,000 places under the Youth Training Scheme which they had promised two years ago, but they thought that it was essential that the YTS allowance should not be increased above £25 and that juvenile pay rates should be reduced as a proportion of adult rates. The Prime Minister said that the problem of the Wages Councils was one which would have to be addressed during the present Parliament.
- (iii) The Prime Minister said that she was still worried about the general level of wage settlements, and had made the point that they had to be considered in relation to output and to wage costs of other countries. The CBI representatives said that they would be putting this message across to their members in a series of meetings on the coming pay round.
- (iv) Ministers and CBI representatives agreed that an essential part of enabling British industry to take advantage of the recovery lay in getting costs down. The CBI welcomed what the Prime Minister had said about abolishing the National Insurance Surcharge during the present Parliament, and a further move in the same direction would be to reduce the burden of employers' National Insurance Contributions. They added that the essential condition for free enterprise to prosper was that Government spending and borrowing should be reduced. Sir Terence Beckett said that he had been encouraged by the discussion he had had with Permanent Secretaries at Sunningdale on this matter, but there was still a long way to go in achieving potential savings within Government.
- (v) The CBI representatives also attached importance to achieving freer exchange of services within Europe to match the free movement of goods.
- (vi) On interest rates, Sir Terence Beckett commented that the upward movement in the mortgage rate last week had to be set in the context of the very substantial reduction which had previously been achieved. However, real interest rates were still much higher than the real rate of return in British industry. Ministers commented that they shared the desire of the CBI for lower interest rates but, since these depended on market and international conditions, they were not solely within the Government's gift.

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- (vii) The CBI representatives referred to the Williamsburg discussion of exchange rates and said that, while they would wish a somewhat lower sterling exchange rate with the European currencies, the main concern of industry was over exchange rate volatility. If a more stable regime could be achieved, this would be a great help to British industry. They complimented the Chancellor of the Exchequer on what had been done to stabilise the oil price.

Summing up the meeting, the Prime Minister said that it had been a very useful exchange, which had covered the medium term as well as the short term and revealed no major differences of opinion between the Government and the CBI. She would welcome further such exchanges with the leaders of the CBI, accompanied by less publicity than the present meeting.

I am copying this letter to Jonathan Spencer (Department of Industry), Barnaby Shaw (Department of Employment), Julian West (Department of Energy) and Richard Hatfield (Cabinet Office).

Yours ever,

Robin Butler

John Kerr, Esq.,
HM Treasury.