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10 DOWNING STREET

From the Private Secretary

7 July 1982

Dear Peter,

Sir Campbell Fraser

The President of the CBI, Sir Campbell Fraser, called upon the Prime Minister yesterday.

Sir Campbell said that the CBI had been giving much thought to the pay prospect. They had reached the conclusion that, in order to improve UK competitiveness - which, inspite of the dramatic productivity improvements of the past year, was still well below the level three years ago - there would ideally be no pay increases in the coming pay round. They, of course, recognised that in practice there would be pay increases, but they thought it most important that the general level of settlements should be lower next year than this. They had noted with concern some recent utterances by Lucas, which might begin to give rise to the impression that after several years of success in reducing the growth of earnings the country had now earned itself some relaxation. The Prime Minister agreed. There would be much to be said for getting away entirely from the annual pay round. Years of incomes policies had broken down the connection between earnings and product. Sir Campbell Fraser said that they had prepared a pay Presentation which lasted about 15 minutes and they would be grateful of the opportunity to make this Presentation to the Prime Minister. The Prime Minister said that she would be interested to hear it, perhaps at the beginning of next month.

Sir Campbell Fraser said that he thought that the Government should not take too gloomy a view of the economic prospect. Existing and prospective unemployment was at a disturbing level, but the other side of this coin was the great improvement in productivity, and the better prospect which many companies now faced as a result. But there must be some anxiety about seeing British companies through two further years in which there was little economic growth. The Prime Minister commented that the Government itself could not create growth; she would be looking to the CBI for some help in the campaign to improve the environment in which accelerated growth could take place: in particular in reducing the overheads on industry. The Prime Minister instanced the CBI's recent unhelpful role in the issue of whether supplementary benefit should be withdrawn from 16-year olds who did not participate in the Youth Training Scheme. Sir Campbell Fraser said that it had been necessary to take this stance in order to deliver a deal with

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the TUC. The Prime Minister commented that she regretted that the point was always put this way round, and that the Government was never told that it was necessary to take a particular course of action in order to achieve a deal with the CBI. She hoped that industry would play a full part in the Youth Training Scheme, since it was much cheaper for companies to provide training places than for the MSC to do so. Sir Campbell Fraser said that he shared the Prime Minister's hope; but that once the scheme got under way he expected a volume of complaints from British industrialists about the costs which the scheme imposed upon them.

The Prime Minister said that another area in which she hoped for CBI support was in seeking improvements in the performance of the nationalised industries. These, she knew, figured prominently amongst the CBI's membership. The Nationalised Industry Investment Review was showing that, once again, these industries were posing a threat to the Government's economic strategy. The Review showed an over-run on the industries' EFL's of £1 billion for 1983/84, of which the National Coal Board was contributing almost £½ billion. They also posed a threat in their pay policies, and in the price increases which they imposed upon the rest of the community. Sir Campbell Fraser said that he believed that this was principally a problem for the industries' owner, the Government. On pay, he was not convinced that the industries were out of line with the general level of settlements in the economy. The Prime Minister said that she hoped that, notwithstanding these views, the CBI would assist the Government in the important task of maintaining proper control over these industries. She also hoped that, generally, the CBI would not be untowardly gloomy in their comments on the economy. Some of their utterances in recent months had been quite unnecessarily discouraging.

I am sending a copy of this letter to Jonathan Spencer (Department of Industry) and Barnaby Shaw (Department of Employment).

Yours sincerely,

Michael Scholer

Peter Jenkins, Esq.,
H.M. Treasury.