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NOTE FOR THE RECORD

This is just a very short note to record the main points which came up at the meeting which the Prime Minister had with Mr. Ian MacGregor at Chequers on Saturday 15 November. Sir Keith Joseph, Mr. David Young and Mr. David Wolfson were also present.

They discussed:-

i) The BSC corporate plan and the problems of the private sector. Mr. MacGregor said that he would be putting forward various options for BSC, including the "lower case" capacity of 8 million tons liquid steel. He was also actively pursuing the idea of hiving off certain BSC plants to jointly-owned BSC/private sector companies. (There are minutes on the file from the Department of Industry recording recent meetings between Sir Keith and Mr. MacGregor which set out these proposals in more detail).

ii) Gas Gathering Pipeline. Mr. MacGregor said that he thought the pipeline should be wholly financed by the private sector, and also that BGC's monopoly as buyer of the gas should be broken. He would prefer the pipeline to be owned by a consortium of private users. If this were done, the price of the gas would be lower, and this would help stimulate the chemical industry.

iii) Mr. MacGregor described a number of ideas he had for financing public sector projects without adding to PSBR. These included self-financing public works - and he suggested, in particular, the construction of a Channel tunnel based on EEC and private financing with "only" a comfort letter (in this connection, he showed the Prime Minister a pre-feasibility study which BSC had helped to finance); production payments in advance of production by BNOC, BGC, the NCB and the CEGB; and tax exempt financing. He left behind the attached letter to Mr. Ryrie in the Treasury. The Prime Minister suggested that Mr. MacGregor should have a further meeting with Mr. Ryrie and that Mr. Young should attend also to discuss these proposals; she would consider seeing Mr. Ryrie (and possibly the Financial Secretary) as well.

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iv) Trade Unions. Mr. MacGregor said that the privileges of our trade unions were without parallel in the industrialised world. He hoped the government would take further action/^{to}rein them back.

v) Management Education. Mr. MacGregor said that the quality of management education in this country was abysmal, and most of the management schools were run by people who did not believe in private enterprise. That was partly why management in the UK was of a generally low standard. But another major problem was that there were not enough people with a scientific or engineering background on company boards: they tended to be full of people with accountancy and legal backgrounds, who were unable to form a judgement on production problems.

vi) Micro-electronics. Mr. MacGregor said that micro-electronics was the critical technology of the future. It was essential to maintain a high level of research in solid state physics if we were to maintain our position as an industrial power, and we needed more people in industry with a solid state physics background.

vii) Money Supply. Mr. MacGregor said he could not understand why the authorities here had such difficulty in controlling bank lending. Even taking into account the openness of our financial markets and companies' access to Euro sterling, he felt sure we could control lending if we had a proper definition of reserve assets; he also did not see why the Bank could not enforce reserve requirements of overseas subsidiaries of UK banks. He thought Mr. Volcker would have a lot to teach us, and offered to ask him to come over to talk with the Prime Minister.

After Mr. MacGregor and Sir Keith had left, Mr. Young stayed behind to discuss the new towns disposal programme and also certain ideas he had in respect of the PSA. He left the attached note on the disposals programme, and promised to let us have a further note on this and also one on the PSA to provide the basis for a discussion between the Prime Minister and Mr. Heseltine. Pending this meeting, the Prime Minister said that she did not wish the PSA Advisory Board

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to be set up as had been proposed. (In fact, we had already told the Department of the Environment that the Prime Minister did not wish this to be set up for the time being).

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cc Mr Whitmore
Mr Wolfson
Mr Pattison

25 November 1980

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