RECORD OF A MEETING AT NO. 10 DOWNING STREET AT 1600 HOURS ON TUESDAY 14 OCTOBER 1980 BETWEEN MINISTERS AND THE TUC GENERAL COUNCIL

Present:-

Prime Minister	TUC General Council Members and Secretariat (as in the attached list at Annex A)
Chancellor of the Exchequer	
Secretary of State for Industry	
Secretary of State for Employment	
Mr. Ian Gow, MP	
Mr. David Wolfson	
Mr. Clive Whitmore	
Mr. Tim Lankester	
Mr. Bernard Ingham	
Mr. Neville Gaffin	
Mr. John Vereker	

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Welcoming the TUC, the Prime Minister said she was glad to discuss problems of mutual concern with them. She invited Mr. Fisher to speak.

Mr. Fisher said that the TUC had asked for the meeting when the official statistics on unemployment had reached 2 million. The request for a meeting reflected the dismay and anger which they felt. There had been a division of view on whether to seek a meeting. There had been those who had argued that it would be a waste of time, that the Government was doctrinaire and inflexible and therefore would not listen to them. The other view, which had prevailed, was that the situation was so serious that it was necessary to tell the Government what ought to be done to rescue the country from disaster.

The evidence of short-time working, redundancies and unemployment was all too clear. The TUC took the point that "there were no magic buttons" which could be pressed to overcome the problem of unemployment. But they did believe there were levers which the Government could use to influence the level of demand and prevent a repetition of the 1930s. They accepted that the current situation was not entirely the responsibility of the Government; nonetheless, the Government had exacerbated it. It would be difficult for trade unions to accept responsibility for the social unrest which would result if no action was taken. They wanted a return to full employment as an objective of Government policy. They did not regard the meeting as a cosmetic exercise : there were genuine economic problems and genuine alternative policies which they wanted to discuss.

Mr. Basnett then read out the attached statement at Annex B.

The Prime Minister said she shared the TUC's concern about unemployment; she also wanted to see a higher standard of living and to spend more on the public services. There was no disagreement about objectives, only about policies. The TUC said the Government's policies were doctrinaire but these same policies had produced high employment, low inflation and better social services in other countries. Those countries recognised that higher spending would mean more inflation, higher unemployment and social unrest. The Government's view was that, if they had succeeded with these policies, it was right to adopt them in this country. The policies were not new nor untried: they were thoroughly tested and would work in the UK if we stuck to them. If we could really solve our problems by spending more they would already be solved. Over the past five years, extra spending on a huge scale had simply led to more inflation and higher imports. We would only get real expansion if we could compete with other countries. Countries which had lower unemployment were those where extra pay more closely matched extra productivity. This was an economic fact which could not be ignored.

As for Mr. Basnett's suggestion about using North Sea oil to assist industry, the fact was that we were using the North Sea revenues already. And in addition, the Government was having to borrow on a huge scale - £7 billion in the first half of 1980/81 - and thereby draining funds from the private sector. She denied Mr. Basnett's criticism of the Government's attitude to the public sector. The Government had, for example, honoured the commitments entered into by the previous Administration relating to the Clegg

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Commission. This had proved very expensive, and the private sector resented it. Public expenditure cuts had produced a drop in orders. But this was because too much had been paid out in pay so that purchases of equipment, etc., had had to be reduced. As for the suggestion that interest rates be reduced, she hated high interest rates. But both Government and companies had been borrowing too much because of excessive wage settlements - which in the private sector had drained profits. The Government were determined to get interest rates down so as to help the private sector both by holding back public spending and by improved funding arrangements such as the recent extension of "granny bonds". Unless there was a flourishing private sector the country could not have improved public services.

As regards the nationalised industries, the Government was providing them with an enormous amount of taxpayers' money - for example, in the current year, £834m to NCB, nearly £1,000m to BSC, £230m to British Airways and £750m to British Rail. On top of these amounts, the industries had had to put up their prices much faster than the RPI because of inefficiency and cost increases. She very much hoped that they would improve their efficiency and be less of a drain on the taxpayer and consumer. As for training, the Government was already spending considerable sums - so that the country would have enough trained people, particularly in high technology areas, when expansion eventually came.

Finally, as regards unemployment, she asked the TUC to consider what they could do to bring it down. Inefficiency and excessive pay increases in monopoly industries were causing unemployment in the private sector: she cited the threatened closure of Bowaters' Ellesmere Port Mill partly because of high energy costs, and the effect of last year's pay increase in the Post Office on telecommunication charges. The trade unions could do much to help to prevent this kind of thing from happening. Another area where they could help was training. Current apprenticeship rules often restricted the availability of trained people, and too often people who had received their training outside the normal apprenticeship route were unable to get a union card. Trade union co-operation was badly

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needed if we were to avoid skill shortages as the economy recovered.

The Government could not flinch from realities nor could the trade unions.

Mr. Murray said that the TUC understood the realities - the run-down of industry and continued inflation. They wanted to tackle both of these problems. But the Government had to recognise that the current unemployment situation had been caused directly by the monetary squeeze. The latest Financial Times business survey showed that loss of orders, and not wage increases, was the main cause of industries' difficulties. The recession was adding to the PSBR, and leading to lower investment and unemployment. Sir Terence Beckett had recently said that it was rapidly leading to the elimination of industrial capacity which would never be replaced. This was all the result of running the economy at a lower level of activity than was possible: the Government was avoiding the realities. The industries which were losing most jobs were those with the lowest wages; this illustrated the need for intervention. The Government must intervene with more selective assistance. Although this would mean going against its strongly held beliefs, the TUC felt that recent examples - such as the assistance to Dunlop - showed that it was capable of change. He agreed that control of the money supply was important, but the Government grossly exaggerated its importance. The Government and the TUC might be converging on objectives, but in his view by the time the Government achieved its aims on inflation, there would be scarcely any industry left. He had recently seen that Chancellor Schmidt had said that Germany needed the UK-type monetary policies propagated by Herr Strauss like a "hole in the head". If present trends continued, he saw increasing polarisation - rather than the consensus that the country so badly needed. The experience of "concerted action" in Germany should be taken into account here.

The Chancellor said that he met the German and Japanese Finance Ministers regularly and there was no significant difference in their policies and the policies being pursued here. The UK was suffering from an accumulation of difficulties, as seen, for example, in the substantial decline in car production while production in Europe had risen. As a result, we were being worse affected by the world recession. In addition, there had been a pay explosion over the last year. Earnings in general were up by 22 per cent, and up by 18 per cent and 27 per cent in industry and administration respectively. Unit labour costs in recent years had risen many times faster than productivity. Furthermore, North Sea oil was having a perverse effect. While it was protecting our living standards, it was causing problems for industry because of the high exchange rate. Contrary to what Mr. Basnett implied, we were already using the benefits of North Sea oil to the fullest extent possible: the Government had both raised the rate of take and brought it forward.

The Chancellor went on to say that it was crucial to improve our economic performance. This could not be achieved by spending and borrowing more. The PSBR was already running ahead of the Budget forecast; this was why it was not/immediately possible to reduce interest rates as the Government would have liked to do. But the effect of high interest rates could be exaggerated: figures recently quoted by Sir Ray Pennock and the CBI showed that 1 per cent off companies' pay was several times more important for their cash flow than 1 per cent off interest rates.

<u>The Prime Minister</u> said that she did believe in intervention, but in order to facilitate change rather than to preserve yesterday's jobs. <u>Sir Keith Joseph</u> said that the last Government had spent too much money subsidising products that people did not want to buy. By contrast, the present Government was assisting industry more selectively and with projects which would not otherwise have gone ahead. The Government was following a similar approach with R&D support. The Government was also maintaining a regional policy, but with greater focus in those areas in greatest need.

<u>The Prime Minister</u> quoted Ellesmere Port as an example of positive intervention by the Government. They were prepared to provide a package of support which they thought should be adequate to prevent the closure of the Mill. But the high cost of energy, notwithstanding the discounts on offer to Bowaters, was still a problem. <u>Mr. Murray</u> commented that the Germans were subsidising their coal industry far more than we were. The same went for steel.

/<u>Sir Keith</u>

<u>Sir Keith</u> said that as far as steel was concerned, this was untrue. Successive Governments had put £5½ billion into steel - far more than in Germany. He did not have comparative figures for coal but NEDO were looking into this.

Sir Keith went on to ask how Mr. Basnett expected to pay for his extra spending. Would he do so by higher taxation or by more borrowing? The Government felt that higher spending would do more harm than good. <u>Mr. Basnett</u> replied that he had never suggested that the Government should throw money away. But there were many areas where it could usefully help with industrial adjustment.

<u>Mr. Prior</u> said that the German experience of "concerted action" which Mr. Murray had mentioned ought to be discussed in NEDC. There was not much disagreement between the two sides on what sort of industries should be supported by Government. The difficulty was where to find the money. So much was currently going to fund loss-makers such as BSC. As for the suggestion that we should reflate demand, this would simply suck in imports and add to inflation. The real need was for both Government and unions to look at the problems of change and see how the country could do better. The Government was considering expanding the Youth Opportunities Programme, but extra money for this would have to be found from somewhere else. The MSC had recently completed their review of training: the Government would enter into full consultation with the trade unions on this. In short, there were a number of areas where there was common ground between the Government and the trade unions which would benefit from discussions on the lines of "concerted action".

<u>The Prime Minister</u> asked whether the trade unions would help on the issues of apprenticeships and training. <u>Mr. Murray</u> said that the real problem was that employers were not taking new apprentices on because of rising unemployment. What level of employment had to be reached before the Government would change its policies? The more unemployment went up, the higher went the PSBR.

/<u>The Chancellor</u>

The Chancellor said that the reality was that other countries were doing better than the UK. If the Government were to respond to the pressures for higher public expenditure, this would only mean higher borrowing, higher interest rates, probably a higher exchange rate and even worse competitiveness for industry. He understood the trade unions' concern about the exchange rate, but it was very difficult to influence - though he had abolished exchange controls. The Prime Minister said that the first essential was to produce goods that other people would buy. Her impression was that the private sector was now doing everything possible to cut costs - and she paid tribute to the trade unionists who were helping to achieve this. Other countries with high exchange rates were beating us on orders; so that it ought to be possible to compete with them.

Mr. Basnett said that the TUC disagreed with the Government on the causes of the recession. The Government argued that it was mainly wages. But this was not supported by the evidence. For example, the Paper and Board Industry said it was due to the high exchange rate and costs within Government control. The high exchange rate was forcing the manufacturing sector generally into trade deficit for the first time. The TUC were prepared to help on training; but how important really was this issue compared with other things that needed to be done? They would like to have specific examples of trade union induced skill shortages.

Sir Keith said that some industries, such as textiles, were under great pressure from imports - sometimes fair, sometimes not. But imports had also surged when the exchange rate was low. He agreed that high wages were not entirely responsible for industries' difficulties - design and marketing problems for example also played a part - but wages certainly did bear much of the responsibility. Profits had been so squeezed that there were insufficient funds for investment and expansion, and high unit labour costs had made industry more and more uncompetitive.

Mr. Murray repeated that the monetary squeeze was also responsible. The Prime Minister said that, on the contrary, monetary growth was running at an annual rate of 17 per cent - and this was going into extra prices and not extra output. Still more "reflation" would mean hyper-inflation and still higher unemployment. The high exchange rate was not altogether bad: it helped industries dependent on imports such as food processing. In any case, many of industries' problems had nothing to do with the exchange rate: the recent reports from Halewood showed that productivity on the new Escort was half that at the Ford plant in Germany. Sir Keith added that the TUC's policies would make unemployment still worse.

The Chancellor repeated that holding down public expenditure was absolutely essential and within this public sector pay had a crucial role to play. Mr. Fisher said that last year's earnings increase in the public sector was to a large extent the result of the catching up on recommendations of Clegg. It would not be repeated in the present pay round. Mr. Prior said that the large public sector pay increases in the last 18 months had been partly because private sector pay had got round Labour's incomes policy. But there had been a very expensive post-dated cheque for the Government to meet.

Mr. Prior went on to say that the trade unions could not blame the Government for zero growth when there had been no growth over the last seven years. For all they said about the exchange rate, it was worth remembering that two-thirds of our recent loss of competitiveness was due to costs going up faster than elsewhere and only one-third to the strengthening of the pound. Those were the facts. We had been importing other people's unemployment because we could not produce at competitive prices. Mr. Murray said that the trade unions knew these realities. They had been trying to improve performance at the firm level through the industrial strategy. The Government was going round in monetary circles. The Chancellor said that he could not ignore the interest rate realities. Furthermore, if settlements in the public sector were lower, there could be more public sector orders for industry. Mr. Murray retorted that by cutting pay the Government were cutting consumer demand. To stop the extra demand going into imports, the Government should introduce import controls. The Chancellor asked how Mr. Murray would raise, say, an extra £1 billion. Mr. Murray said he would do so through higher production. The Chancellor said that inflation would only come down if wage settlements came down, and then also production would recover.

The Prime Minister, again citing the current situation at Halewood, said that improved production would only come from better cooperation at the workplace and from leadership at every level. More production would produce more jobs. The Government was doing what it could do: pumping more money into the economy would not help. A return to sound money was the only sure way back to higher employment, as other countries had shown. She was grateful for the cooperation that was now being shown by many trade unionists at company level. She hoped that the trade union leaders would discuss the issues confronting them further with sponsoring Ministers.

Mr. Fisher said that the General Council would leave the meeting with an impression of serious disagreement on what needed to be done. They had stated what, in their view, should be done. The Government bore a greater responsibility for the current situation than it was prepared to accept. He hoped that Ministers had listened to their proposals and that they would take them into account. The TUC would be pursuing them in greater detail in subsequent discussions. They would look to future developments of policy as the test of whether Ministers had listened. The Prime Minister said that the Government would look to action from the trade unions.

The meeting finished at 1750 hours.

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15 October 1980

GENERAL COUNCIL MEMBERS AND SECRETARIAT

Mr. A.W. Fisher - Chairman
Mr. T. Parry - Vice Chairman
Mr. D. Basnett
Mr. J.R. Boddy
Mr. R.W. Buckton
Mr. F.J. Chapple
Mr. L. Daly
Mr. G.A. Drain
Mr. T. Duffy
Mr. J.F. Eccles
Mr. A.M. Evans
Mr. K. Gill
Mr. W. Greendale
Mr. C.D. Grieve
Mr. L.G. Guy
Mr. T. Jackson
Mr. F. Jarvis
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Mr. W.H. Keys
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Miss A. Maddocks
Mr. W.H. Maddocks, M.B.E.
Mr. J.W. Morton
Mrs. C.M. Patterson
Mr. A.L. Sapper
Mr. A.R. Smith
Mr. L. Smith
Mr. T. Thomas
Mr. W. Whatley
Mr. L. Wood

The Rt. Hon. L. Murray, O.B.E. - General Secretary
Mr. N. Willis - Deputy General Secretary
Mr. K. Graham - Assistant General Secretary
Mr. D. Lea - Assistant General Secretary
Mr. B. Callaghan
Mr. B. Barber
Mr. A. Cave