SUBJECT.

cc Master set

NOTE FOR THE RECORD

Sir Raymond Pennock and Sir Terence Beckett of the CBI called on the Prime Minister on Monday 2 February. Their main purpose was to outline the CBI's proposed medium term strategy for industry on which they would be publishing a document on 5 March. They had earlier sent over the attached summary which Sir Terence read out to the Prime Minister.

The following further points came up in discussion:

i) Sir Ray said that the CBI totally rejected the TUC's strategy for recovery, and they had already told the NEDC 6 this privately. Although the CBI might have some disagreements with the Government on the tightness of the present policies on the exchange rate, they were quite sure that the TUC spending proposals of £6 billion were "not on". As regards certain specific points in the TUC document, the~~ir~~ TUC's opposition to overseas investment was unfounded - in that the low level of investment in the UK was due, not to lack of funds, but to lack of profitable investment opportunities. The Wilson Committee Report had confirmed this. The same argument applied against the TUC's proposal for a national investment bank. The TUC's proposal for work-sharing was also mistaken - because it ignored the fact that it was bound to put up industrial costs: it would be the equivalent of "giving productive capacity away to our competitors". The TUC were beginning to concede privately that competitiveness was important, but there was scarcely no reference to it in their document. The document also insisted that the Government must "sort everything out" - whereas the CBI were saying that this mainly had to be done by the trade unions, their members and management.

ii) Sir Ray referred briefly to the CBI's budget representations (a copy of which we have on the file). He said that they had had a useful meeting with the Chancellor the previous week.

/ The Prime Minister

The Prime Minister said that she had read their recommendations; she thought the PSBR which they were proposing for 1981/82 was perhaps too high.

iii) Sir Terence referred to the latest CBI trends survey. This showed that industry had not yet reached the bottom of the cycle. For example only 8 out of 44 companies were quoted as having reached the bottom of de-stocking. He said that he had recently been to the West country, where the industrial situation was very bad. There was much short-time working and for many firms export profitability had disappeared. More generally, the level of new investment and the level of profits had reached a dangerously low level. The main thrust of the CBI's medium term strategy was to reverse the investment and profits trend. Sir Ray said that many highly efficient companies were now being hit hard by the exchange rate. For example Sir Maurice Hodgson recently said that in some product lines, even if ICI paid their workforce nothing, they could no longer afford to export. In Sir Ray's view, an exchange rate of $2.15 would be about right. The Prime Minister said that when she had made the point about the exchange rate being a factor in any decision on MLR, she had had in mind the CBI's representations on this point.

iv) Sir Terence said that the CBI were appalled by Labour's apparent intention to withdraw from the EEC if they regained office. The CBI for their part had sent the Department of Trade a paper setting out the priorities for EEC action as they saw it.

v) On the nationalised industries, Sir Terence said that the CBI were going to propose in their strategy document a root and branch examination of them. They felt there should be a high-powered task force to look at all aspects of the nationalised industries; he felt this proposal would be politically attractive to the Government.

TL

5 February 1981