

D.R.
CONFIDENTIAL

PRIME MINISTER

20 November 1984

CBI VISIT - SIR JAMES CLEMINSON AND SIR TERENCE BECKETT

You might like to congratulate the CBI on:

- a) The sharp improvement in company profits, productivity and investment in the last 3 or 4 years. (Gross trading profits have grown at an average annual rate of some 15%. Productivity is increasing at 2-3% pa and total investment in the economy has recently been averaging 6% pa in real terms, with most of the growth coming from the private sector.)
- b) The constructive spirit behind recent CBI economic proposals - they have moved a long way from the days of "Bare-knuckles Beckett".

We understand that, in reviewing the CBI's Conference Sir James and Sir Terence will want to cover the following principal subjects:

1. The case for more infrastructure investment mainly to increase the competitiveness of British Industry.

In their recently-published "Fabric of the Nation" the CBI advocate additional investment of some £3 billion (1982 prices) over the next decade on motorways and major roads. The paper notes that 60% of our trade is now with Western

CONFIDENTIAL

CONFIDENTIAL

- 2 -

Europe, yet the network of major roads still provides inadequate access to Europe via the south and east coast ports.

Unlike the TUC who call for £30 billion extra infrastructure investment over the next 5 years, the CBI are at pains to reconcile their proposal with the thrust of Government policy:

"These proposals are not designed as measures to reflate the economy, but solely to avoid constraints to growth. Public sector funds spent in this way will help improve the competitiveness of British industry and commerce and match the advantages enjoyed by competitors across the Channel. The proposals can and should be financed within the limits for public borrowing laid down by the Government. They should not cause inflation."

On financing, the CBI point to the scope for efficiency-saving across the public sector and suggest that the possibility of private-sector investment should again be explored.

Comments:

- a) There may indeed be a case to raise infrastructure investment up the priority order. It is easy to write a shopping list of new or accelerated road improvement schemes. But is CBI sure that this is the most effective

CONFIDENTIAL

way of removing constraints on business growth? (See comment on skills, below)

- b) Transport endorse the CBI's contention that there is a satisfactory economic return (of the order of 5% real) underlying their major road projects. Capital expenditure on roads has increased by roughly £200 million pa since 1981/82. Nonetheless, the overriding constraint at present is not finance, but protracted planning processes. For example, the M40 extension from Oxford to the Midlands has been under deliberation for more than 10 years.

Other critical bottlenecks still being fought through the planning processes are the A1/M1 link opening up the Midlands to the A45 and thence Felixstowe, the A34 Oxford to Winchester improvements, (ie Midlands to Southampton) and the Okehampton bypass.

The good news, of course, is the imminent completion of the M25 outer ring road. And we should take due credit for improved access to the East Coast ports. The A45 link between Cambridge and Felixstowe has been established, and the A12 from London to Harwich and Felixstowe is all but complete as a dual carriageway.

- c) Finance could again be the critical factor in 2-3 years time when the projects currently under planning scrutiny are ready to be implemented. With this in mind, we could

take up the CBI's suggestion to explore the scope for private-sector investment - both as an acid test of commerciality and as a means of promoting economically-sound projects within the constraints of the PSBR. (You could press CBI on road builders' willingness to shoulder the risks and CBI's attitudes to tolls.)

2. Training to overcome skill shortages, and the need for more mobility of labour.

Comments:

- a) Shortages of skilled labour are probably a greater impediment to the competitiveness of British industry than the inadequacy of our infrastructure. They constrain the most buoyant and profitable sectors of the economy with the greatest potential for growth.
- b) The Butcher Committee has already identified serious skill shortages affecting the information technology sector. The Committee's proposal to establish a new body, uniting industry (through the CBI) and education in an attack on skill shortages, is welcomed. That attack must be vigorous. The CBI should be urged to treat this as a matter of the highest priority. Constructive criticism and fresh ideas are welcomed.

- c) The Government have successfully stimulated the oil companies to intensify oil and gas exploration, appraisal and development. The ensuing wave of activity has considerable potential to create jobs in the UK. It would be a tragedy if the wave is too big for capable UK suppliers and contractors to handle. The problem is less one of physical facilities than of skilled artisans and craftsmen. We urgently need to identify those trades which are likely to be most deficient and forestall a shortage.

The CBI should consult the UK Offshore Operators Association who are understood to be initiating a detailed study of the manpower needed to service the upstream oil and gas sector.

- d) David Young's young people's MISC 107 is working towards a 2nd year of training for those covered in the 16-18½ range by a 1 year YTS. This will need substantial co-operation from business in finding places and in part-funding. The CBI could be wooed in general terms as a prelude to this.

3. The European ideal - the CBI's aspiration to help break down the barriers to free enterprise. They want to be more pro-active. (This year Sir Raymond Pennock is Chairman of UNICE, the body of European confederations of industry.)

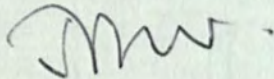
CONFIDENTIAL

- 6 -

Comments:

The CBI should be encouraged. We will only derive benefits from membership if we unify the market. But industry will have to recognise the implications, too: tougher competition eg cars; a more open public procurement policy.

4. De-regulation. CBI were slow off the mark. You could encourage CBI's support for the Government's policy.



JOHN WYBREW

CONFIDENTIAL