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10 DOWNING STREET

From the Principal Private Secretary

21 November 1984

Dear Andrew,

PRIME MINISTER'S MEETING WITH SIR JAMES CLEMINSON AND SIR TERENCE BECKETT: WEDNESDAY 21 NOVEMBER

The Prime Minister was grateful for the briefing enclosed with your letter of 19 November for her meeting with Sir James Cleminson and Sir Terence Beckett which took place this morning.

Sir James Cleminson began by expressing the sympathy of the CBI with the Prime Minister and those who had been involved in the Brighton bomb. He added that there had been no complaint among those attending the CBI Conference that the Prime Minister had been unable to attend the Question and Answer Session on 4 November: the general sentiment was one of understanding and support.

Sir James Cleminson added that a prominent theme of the CBI Conference had been the improvement of competitiveness and the opportunities for British business, particularly in Europe. He commended the work being done by Lord Pennock as Chairman of UNICE. UNICE had done good work on the Fifth Directive, but Lord Pennock was now seeking a more positive role in which UNICE would bring pressure on EC Governments and the Commission to reduce the burden of regulations on business throughout Europe and foster a better atmosphere for enterprise. The Prime Minister asked whether it was true that the burden of regulations in other European countries was greater than in Britain: Sir Terence Beckett confirmed that it was and that this was being reflected in the higher proportion of American and Japanese investment which Britain was attracting compared with other European countries.

Sir James Cleminson said that he would also like to raise with the Prime Minister the concern of his members about the effects of the changes in corporation tax in the last budget on company liquidity. He gave the Prime

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Minister a graph (copy attached) illustrating that the changes would produce a trough in liquidity in 1986/87, when it might have an effect on investment which would coincide with a downturn in the trade cycle. This effect was hitting most severely the fastest growing high technology companies which had invested heavily and wrote off their investment quickly. Sir James Cleminson said that he had asked the Financial Secretary whether anything could be done in the forthcoming budget to mitigate this effect, and the Financial Secretary was well aware of the CBI's concern.

Turning to training, Sir James Cleminson said that there was strong interest in industry in both youth and adult training, and industry would make a substantial investment in it. The CBI were in touch with the Minister without Portfolio and the Minister of State, Department of Employment about it. He stressed the desirability of extending the YTS to the age of 18. People who stayed on in full time education after the minimum school leaving age needed to be able to use the new technology, and their educational courses did not cover this. The Prime Minister acknowledged the problem that the education system was not adequately preparing school-leavers for work in industry. She also referred to the problem of wages and of wage councils, of which nine had wage structures which prevented employers from taking advantage of the Young Workers Scheme.

Taking up the theme of wages, Sir Terence Beckett said that the CBI had a hard hitting presentation, which had already been seen by the Chancellor of the Exchequer and other Ministers, and by several thousand employers. They would like to show it to the Prime Minister, and the Prime Minister agreed to find time for this, probably shortly after Christmas. Sir Terence Beckett continued that the CBI did not expect a wages explosion in the coming year, but assented to the Prime Minister's comment that wage increases were still too high. However, he said that the picture was better if one looked at unit labour costs and that the index of production was misleading because it was too weighted towards older companies and used listed prices as a deflator rather than the discounted prices which generally applied: these factors probably caused the index of production to under-estimate performance by about one per cent.
Sir Terence Beckett added that it was also important to remind employers to concentrate on total labour costs, including such things as bonuses and extra holiday payments, and not just on wages.

The Prime Minister asked about the CBI's relationship with the unions. Sir James Cleminson said that the CBI had met the TUC representatives on NEDC on the previous evening to discuss how they could make papers to NEDC more effective, in the sense of leading to action. The leading

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TUC figures were at present in a low state of morale. The Prime Minister said that she would like to mark the return of the TUC to NEDC in some way, perhaps by giving a reception before the January meeting of NEDC. She would be considering this further.

Finally, Sir James Cleminson said that he would like to refer to the CBI's efforts to promote additional spending of infrastructure. He said that the CBI, relying on the McAlpine report, were not pressing for additional public money, but rather on a diversion of money from current expenditure into capital. The vast majority of their membership accepted that new money should not be provided. Sir Terence Beckett added that up to £3 billion was at stake from better purchasing methods, on which he had been working with Sir Robin Ibbs. He also emphasised that, if investment plans were to be prepared in time for the downturn in the trade cycle which the CBI expected in 1986, preparatory steps needed to be taken now. The Prime Minister commented that she was seriously concerned about the length of time which the planning process took, referring particularly to the Stansted and Sizewell inquiries. She was due to have a meeting with Sir John Sainsbury and a group led by him, and hoped to find further ways of cutting down the time taken by the planning process and the scope for protestors to exploit the system in order to delay developments to which they were opposed.

I am copying this letter to David Peretz (HM Treasury) and David Normington (Department of Employment).

Yours sincerely,

Robin Butler

Andrew Lansley, Esq.,
Department of Trade and Industry.

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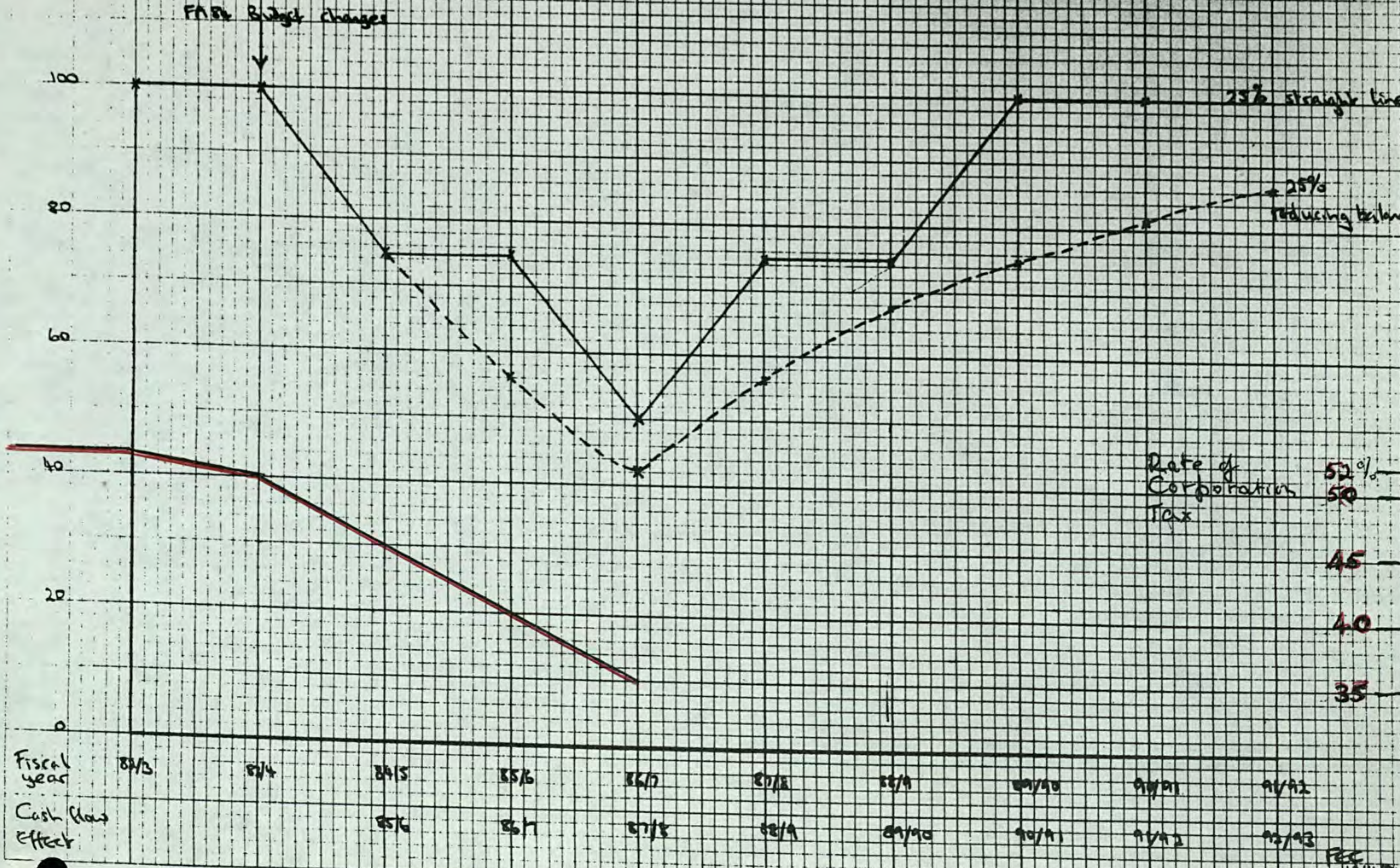
Proportion of Capital Allowances Claimable per £100 of Investment on Plant and Machinery

Comparison on 25% straight line and 25% reducing balance basis (Assumes no inflation)



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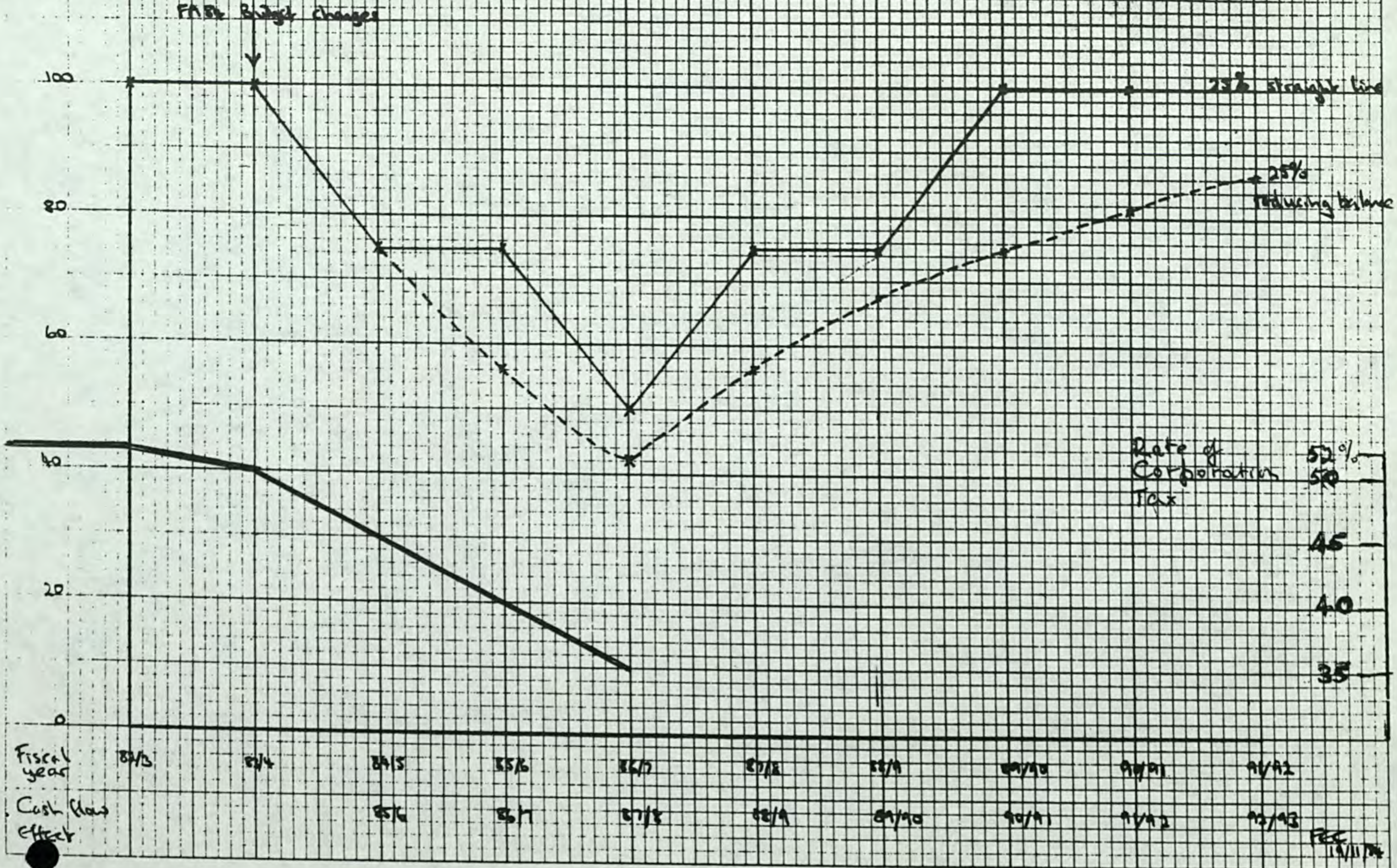

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