park. A.

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Begins: 7/10/81
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PO -CH /GH/0033

PART A

Chancellor's (Howe) Papers:

CONSERVATIVE INDUSTRIAL POLICY THE OUTLOOK FOR INDUSTRY

Disposal Directions: 25 Years

24/7/95.

PART A

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PWP. E.6

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Cropper

PROSPECTS FOR RECOVERY AND THE CASE FOR HELPING INDUSTRY: MOVEMENTS IN VOTING ATTENTIONS

You will doubtless have studied the EB summary of the annulative results of the FT monthly survey of business opinion. I have marked three answers that seem to me to be particularly important, and which point out the need to watch very carefully indeed the extent to which recent events will produce an entrenched degree of pessimism. The fall in the level of general optimism between September and August (question 1) is, I think, the most alarming - though it might well be reversed if some of the stormier clouds overseas lift somewhat. That anxiety is reinforced by the answer on capacity and question 4, which sees a surprisingly large jump from present circumstances. On the other hand all is not gloomy in this series of answers, since the answers to question 10 on expected wage increases show a substantial improvement, very much as happened at this time last year.

2. The state of industry and the economic case for giving it some assistance has, of course, to be seen alongside the rather political question of the way we are regarded in the country at the moment. I know you do not, as a rule, have much time for opinion polls. However, I think that some of the results in the attached background note from the Research Department do need careful study, and undoubtedly mirror a degree of generalised anxiety which we have all encountered recently at the ground level. Perhaps the most important part is on page 3, which sets out voting intentions on the assumption that there is a Social Democratic-Liberal allowance. It must be a very long time indeed since the Conservative Party share in voting intentions sunk to 16 per cent.

AM

A N RIDLEY
7 October 1981

BACKGROUND ECONOMIC BRIEFING

Tape 57
TEB HE/3
5 October 1981

THE FT MONTHLY SURVEY OF BUSINESS OPINION

SUMMARY OF RESULTS**

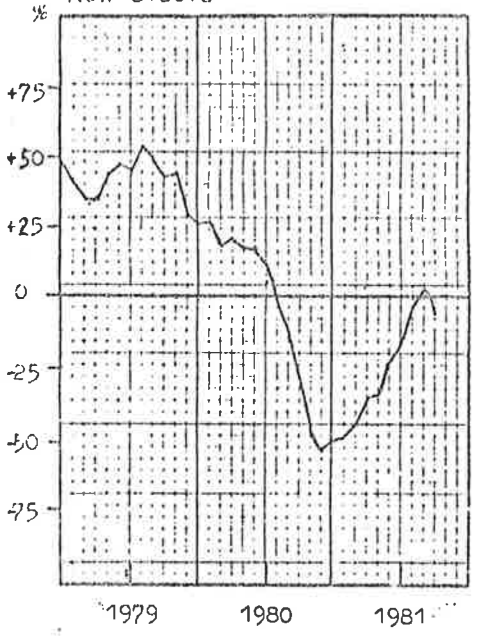
All figures are percentages, and percentages balances of 'ups' over 'downs' except where indicated thus*
Figures for each month are 4 monthly moving totals

	1980 J	F	M	A	M	J	J	A	S	O	N	D	1981 J	F	M	A	M	J	J	A	S	O	N	D
1. Optimism - General Business Situation compared with 4 months ago	-15	-16	-30	-18	-13	-19	-23	-43	-43	-33	-29	-20	-20	-20	-8	1	15	22	15	18	2			
2. Optimism - Export prospects (value) over the next 12 months (weighted by exports)	34	26	25	22	13	19	18	19	29	34	32	29	27	13	8	9	15	27	39	41	44			
3. Capital Investment* - increase in volume (weighted by capital expenditure) over next 12 months	34	26	28	26	30	31	29	30	26	22	22	20	21	27	25	26	28	22	22	22	20			
4. Capacity* - firms working below target capacity, at present	33	30	26	26	25	31	43	55	59	59	58	49	50	56	56	59	52	48	41	45	53			
5. Labour Requirements - over next 12 months (weighted by employment)	-16	-13	-25	-28	-47	-49	-53	-57	-54	-52	-48	-46	-35	-37	-37	-36	-42	-35	-31	-31	-31			
6. Factors currently affecting production* Respondents may return more than 1 factor.																								
Home orders	64	69	73	76	80	85	87	91	95	94	93	95	90	90	91	91	92	92	87	87	90			
Export orders	41	43	43	44	50	48	49	56	55	56	64	63	63	66	64	62	61	61	58	64	63			
Executive staff	12	9	11	12	9	9	4	2	1	3	3	3	2	0	0	0	2	3	3	4	2			
Skilled factory staff	26	25	27	24	19	15	9	8	8	6	6	6	5	4	4	3	2	2	0	0	3			
Manual labour	6	8	5	4	2	0	0	0	0	0	2	1	1	1	0	0	0	1	1	1	1			
Components	14	15	11	11	6	1	1	0	1	1	1	1	0	0	0	0	1	1	1	1	0			
Raw materials	11	9	17	19	19	15	9	6	6	6	2	2	0	2	4	4	7	5	6	6	3			
Production capacity [plant]	7	11	12	11	11	9	7	[illegible]	8	6	4	3	3	3	3	3	3	3	5	5	4			
Finance facilities	2	2	2	2	2	1	3	5	6	6	4	2	1	1	1	0	1	0	0	1	1			
Others	6	10	12	12	11	8	4	2	4	3	3	3	3	6	13	14	15	18	15	16	16			
Labour disputes	30	31	35	32	26	16	8	10	8	8	6	3	4	9	11	16	15	11	11	5	3			
No answer/no factor	8	7	2	7	8	8	9	5	3	3	5	4	5	5	1	1	3	4	7	7	4			
7. New orders - (volume) - compared with 4 months ago	2[illegible]	18	-20	-17	-17	-12	0	-14	-30	-46	-53	-49	-47	-44	-35	-34	-24	-17	-4	2	-6			
8. Stocks - over next 12 months																								
Raw materials and components	1	-4	-9	0	11	6	8	-5	-17	-15	-17	-18	-14	-17	-12	-2	7	13	24	19	11			
Manufactured goods	12	9	-4	-2	4	0	7	-4	-14	-10	-20	-19	-13	-21	-8	2	5	11	21	18	14			
9. Unit costs* rise over next 12 months																								
Same										3	3	3	2	1	1	1	1	0	0	0	0			
0-4%	2	1	5	5	4	4	0	1	2	2	2	3	4	5	7	6	3	2	6	5	6			
5-9%	5	3	3	6	5	4	6	8	16	17	20	19	18	25	30	35	35	34	32	27	29			
10-14%	33	35	31	30	37	30	38	39	31	33	39	47	47	50	40	37	39	40	43	36	37			
15-19%	29	29	31	30	32	42	38	35	32	26	20	16	15	8	6	5	4	2	3	6	5			
20-24%	8	7	9	7	4	5	3	3	2	1	1	0	0	0	0	0	1	1	1	1	0			
Decrease					0	0	0	1	1	1	1	0	0	0	2	2	2	2	0	0	2			
No answer	23	25	21	22	18	15	15	13	15	17	14	12	14	11	14	14	15	19	16	24	21			
10. Wages* rise over next 12 months by:																								
0-4%													1	1	1	1	0	0	0	0	2			
5-9%	0	0	0	0	0	0	0	4	6	10	19	22	34	43	49	53	45	43	53	57	66			
10-14%	15	18	17	13	11	13	20	28	42	45	49	48	40	38	40	40	46	48	40	35	23			
15-19%	37	46	56	64	68	66	62	47	35	31	13	13	11	5	4	1	0	0	0	0	0			
20-24%	11	14	16	14	13	15	11	13	10	6	6	3	2	2	0	0	0	0	0	0	0			
No answer	35	22	11	9	8	6	7	8	7	8	13	14	12	11	6	5	9	9	6	8	7			
11. Profits margins - improvements expected over next 12 months	6	7	10	23	18	14	-7	-17	-18	-10	-15	-17	-13	-19	0	14	14	25	29	20	31			

** Thirty companies in three sectors drawn from a sample of 120 companies in eleven industrial sectors are covered in turn each month. [Mechanical engineering is surveyed every second month.]

THE FT MONTHLY SURVEY OF BUSINESS OPINION

New Orders

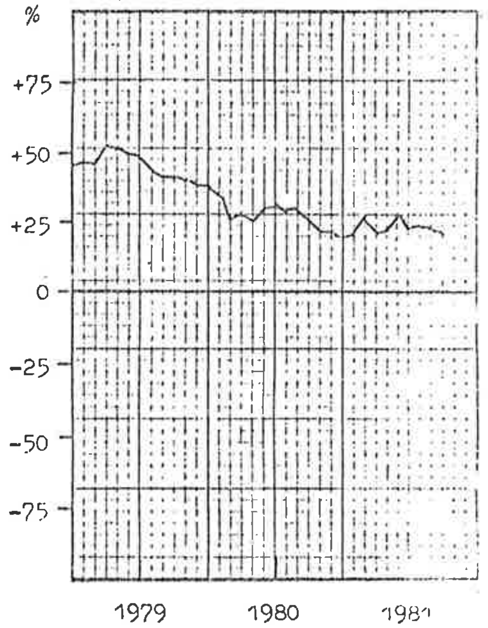


Trend in volume of new orders in last 4 months.
Balance of ups over downs.

Employment

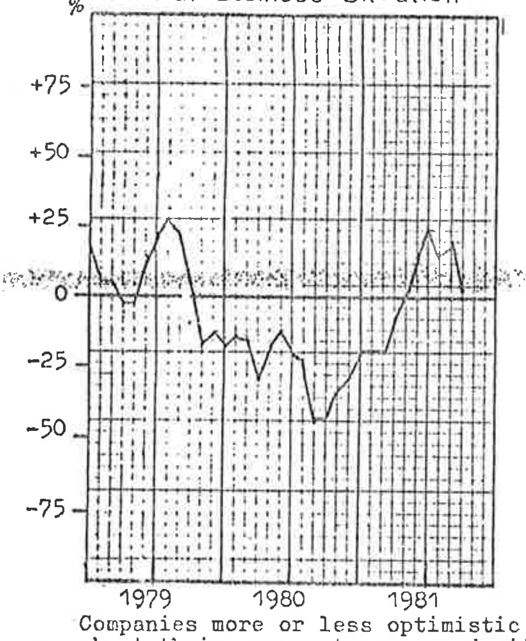
Balance of those expecting their labour force over next 12 months to increase/decrease.

Capital Investment



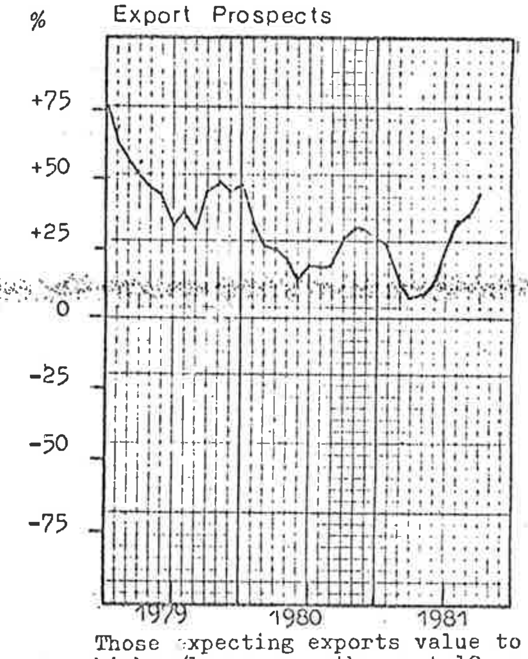
Those expecting capital investment to increase in volume over next twelve months.

General Business Situation



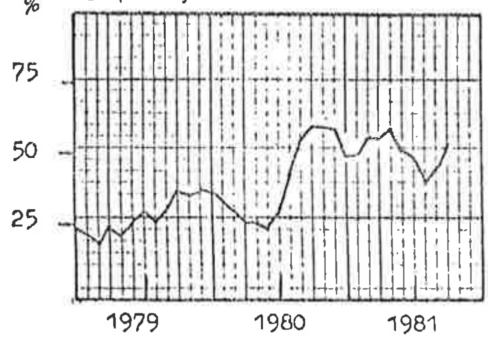
Companies more or less optimistic about their prospects compared with 4 months ago.
Balance of ups over downs.

Export Prospects



Those expecting exports value to be higher/lower over the next 12 months.
Balance of ups over downs

Capacity



Those companies currently working at below target capacity.

PUBLIC OPINION BACKGROUND NOTE 83

(published 25th September 1981)

1 Introduction

The interviewing for our latest Gallup 'tracking' study was conducted from 16th to 21st September and they interviewed over 1,000 electors throughout Great Britain. Our unpublished survey found a return to the trend of support for the Conservative Party that existed before the Gallup study published in the Daily Telegraph (17th September and conducted 9/14 September). Our latest study found 25% of the electorate claiming they would vote Conservative (32% 9/14 September) , 25% 1/7 September), 36½% Labour (36½% 9/14 September, 41% 1/7 September), 16% Liberal (11½% 9/14 September, 15% 1/7 September) and 19% Social Democrat (17½% 9/14 September, 16% 1/7 September). Labour's lead which dropped to 4½% in the Gallup poll conducted 9/14 September increase to 11½% in our latest study.

The survey was completed before the start of the Labour Party Conference and found both a sharp increase in the level of Liberal support and a small increase in the level of support for the Social Democrats. Details of the trend in support for the main parties since the beginning of June this year are shown in the table below. The figures are on the same basis as the voting intention figures published in the Daily Telegraph - they exclude don't knows.

VOTING INTENTION

	CON	LAB	LIB	SOCIAL DEMOCRAT	OTHER	LEAD
1979	%	%	%	%	%	%
May (GE)	43.9	36.9	13.8	-	5.5	+7.0
13/18 June*	42.0	43.5	13.0	-	5.0	-9.0
3/8 June	31.0	40.0	14.0	12.5	2.5	-9.0
9/15 June	29.5	37.5	18.0	12.5	2.5	-8.0**
16/22 June	32.0	37.0	15.5	13.0	2.5	-5.0
24/30 June	29.0	40.0	17.0	12.0	2.0	-11.0
1/6 July	30.5	39.5	14.0	13.0	3.0	-9.0
8/13 July	30.0	40.5	14.5	12.0	3.0	-10.5**
15/20 July	29.0	36.0	16.0	17.0	2.0	-7.0
22/27 July	26.0	38.0	13.0	21.0	2.0	-12.0
29 July/ 3 Aug	25.5	40.0	11.5	20.5	2.5	-14.5
5/10 August	27.0	36.0	15.0	18.0	4.0	-9.0
12/17 August	28.0	38.5	13.0	19.0	1.5	-10.5**
19/24 August	29.0	34.0	17.0	18.0	2.0	-5.0
26/31 August	26.0	41.0	15.0	16.0	2.0	-15.0
1/7 September	25.0	41.0	15.0	16.0	3.0	-16.0
9/14 September	32.0	36.5	11.5	17.5	2.5	-4.5 **
16/21 September	25.0	36.5	16.0	19.0	3.5	-11.5

* First Gallup post-Election survey
** Published Polls

In addition to the standard voting intention question which does not include specific reference to any of the political parties, each Gallup tracking study includes two additional questions on how respondents claim they would vote if they could vote (a) for a Social Democratic candidate or (b) for a Liberal-Social Democratic Alliance candidate. Details of the trend of answers in response to these standard questions are shown below. It must be noted that unlike the analysis presented in the Daily Telegraph, these particular tables have not been re-calculated excluding don't knows.

VOTING INTENTION IF

SOCIAL DEMOCRATIC CANDIDATE
(including don't knows)

	3/8 June %	9/15 June %	16/22 June %	24/30 June %	1/6 July %	8/13 July %	15/20 July %	22/27 July %	29 July 3 Aug %	5/10 Aug %	12/17 Aug %
Conservative	22	23	23	21	22	21	21	18	20	20	20
Labour	27	28	28	31	29	29	28	28	30	27	27
Liberal	9	12	11	11	8	9	11	9	7	8	8
Others	2	1	2	1½	2	2	2	1	1	2	1
Social Democrat Party	23	20	19	19	20	20	23	29	26	25	26
Social Democrat/ Liberal Alliance	-	-	-	-	-	-	-	-	-	-	-
Don't know/it depends	17	16	16	16½	16	18	16	16	15	18	18

	19/24 Aug %	26/31 Aug %	1/7 Sept %	9/14 Sept %	16/21 Sept %
Conservative	21	20	19	23	18
Labour	25	28	29	27	27
Liberal	11	9	10	7	11
Others	1	1	2	1	2
Social Democrat Party	25	24	25	24	27
Social Democrat/ Liberal Alliance	-	-	-	-	-
Don't know/it depends	16	18	15	18	15

VOTING INTENTION IF SOCIAL DEMOCRATIC/LIBERAL ALLIANCE

	3/8 June %	9/15 June %	16/22 June %	24/30 June %	1/6 July %	8/13 July %	15/20 July %	22/27 July %	29 July 3 Aug %	5/10 Aug %	12/17 Aug %
Conservative	21	22	24	20	22	20	21	18	20	20	19
Labour	27	27	27	29	28	27	27	27	29	25	27
Liberal	-	-	-	-	-	-	-	-	-	-	-
Others	2	1	2	1	2	2	2	1	2	2	1
Social Dem. Party	-	-	-	-	-	-	-	-	-	-	-
Social Democrat/ Liberal Alliance	32	30	28	32	28	31	33	37	33	33	33
Don't know/it depends	18	19	19	18	19	19	18	16	16	19	19

/...

Voting Intention if Social Democratic/Liberal Alliance (cont'd)

	19/24 Aug %	26/31 Aug %	1/7 Sept %	9/14 Sept %	16/21 Sept %
Conservative	21	19	20	23	16
Labour	25	27	28	26	26
Liberal	-	-	-	-	-
Others	2	1	2	1	2
Social Democrat Party	-	-	-	-	-
Social Democrat/ Liberal Alliance	35	31	33	32	40
Don't know/it depends	18	22	18	18	6

When Gallup asked respondents how they would vote if a Social Democrat candidate stood in their constituency - 27% claimed they would vote for such a candidate - the highest level of support for them found by this standard question since early April. When Gallup asked respondents how they would vote if a Liberal/Social Democrat Alliance candidate stood in their constituency 40% of the electorate (four out of ten) claimed they would vote for such a candidate. This is the higest level of support for such an alliance we have ever found. Details of the answers to the three standard voting intention questions are shown below:

VOTING INTENTION

(16/21 September 1981)

	Standard Voting Intention	Voting if Social Democratic Candidate	Voting if Social Democratic/ Liberal Alliance Candidate
	%	%	%
Conservative	23	18	16
Labour	33	27	26
Liberal	14	11	-
Social Democrat	17	27	-
Social Democrat/Liberal	-	-	40
Others	3	2	2
Don't know	10	15	16

2. Government Record

Our latest tracking study found a sharp drop in the level of approval for the record of the Government - down from 26% approving of the record of the Government in the week 9/14 September to 21% in the week 16/21 September. Details are shown in the table on the following page.

GOVERNMENT RECORD

	Approve %	Disapprove %	Don't Know %
1979			
13/ 3 June	34	41	25
1981			
3/8 June	26	60	14
9/15 June	26	63	11
16/22 June	29	59	12
24/30 June	23	67	10
1/6 July	24	63	13
8/13 July	23	66	11
15/20 July	23	66	11
22/27 July	23	66	11
29 July/ 3 August	23	65	12
5/10 August	23	64	13
12/17 August	23	66	11
19/24 August	26	64	10
26/31 August	23	64	13
1/7 September	23	65	13
9/14 September	26	63	11
16/21 September	21	67	11

3. Popularity of Political Leaders

Drop in the level of Mrs Thatcher's popularity - back to about the level we found before last week's published study. No change in popularity of Mr. Foot but a sharp improvement in Mr. Steel's popularity.

POPULARITY OF POLITICAL LEADERS

	Mrs Thatcher			Mr Foot			Mr Steel		
	Sat. %	Dis-sat. %	Don't Know %	Is %	Is not %	Don't Know %	Is %	Is not %	Don't Know %
1981									
3/8 June	36	58	6	29	41	21	59	19	22
9/15 June	33	61	6	28	48	24	61	18	21
16/22 June	34	60	6	29	50	21	60	20	21
24/30 June	30	65	5	28	52	21	60	19	21
1/6 July	31	62	7	25	54	21	60	17	23
8/13 July	30	65	5	25	52	23	56	20	24
15/20 July	31	65	4	22	59	19	59	19	22
22/27 July	26	68	6	23	55	22	59	21	21
29 July/ 3 Aug	27	68	5	26	53	20	57	23	20
5/10 August	30	65	5	27	56	17	62	18	21
12/17 August	28	66	6	23	57	20	61	18	21
19/24 August	33	61	6	25	51	24	63	19	19
26/31 August	28	66	6	29	52	20	60	20	21
1/7 September	28	67	5	29	52	19	63	18	19
9/14 September	32	62	6	28	54	18	56	21	23
16/21 September	27	68	5	28	52	20	64	16	20

4. Published Polls

(a) N.O.P. (Daily Mail 25th September 1981)

The Daily Mail on 25th September included the results of an N.O.P. poll conducted on September 21st. The poll looked at attitudes to the candidates for Labour's Deputy Leadership elections and to aspects of Labour Party policies.

When N.O.P. asked respondents how they would vote if they had a vote in Labour's Deputy Leadership election, 57% said they would vote for Mr. Healey, 14% for Mr. Benn and 7% for Mr. Silkin. Among Labour voters 54% said they would vote for Mr. Healey, 24% for Mr. Benn and 8% for Mr. Silkin.

The N.O.P. survey found with an unprompted voting intention question that 34% of respondents claimed they would vote Conservative, 34% Labour, 11% Liberal, 15% Social Democrat and 4% SDP/Liberal Alliance.

When asked about attitudes to a number of left-wing Labour policies N.O.P. found:-

Q. Do you agree or disagree with reducing Britain's nuclear weapons regardless of wha[t] other countries do?

	All	Labour Voters	Trade Unionists
	%	%	%
Agree	34	50	38
Disagree	58	41	57
Don't know	8	9	5

Q. Should Britain be taken out of the Common Market?

Come out	46	71
Stay in	45	22
Don't know	9	7

Q. Should British troops be withdrawn from Northern Ireland?

Agree	53	68
Disagree	34	23
Don't know	13	9

Q. Should more Government money be used to reduce the level of unemployment?

Agree	75	93
Disagree	18	5
Don't know	7	2

(b) N.O.P. (Observer 27th September 1981)

An N.O.P. poll published in the Observer on 27th September, and conducted on 23rd Septemb[er] 1981 found Denis Healey being the clear favourite for the post of Deputy Leader.

When N.O.P. asked electors which of five possible candidates they would most like to see as leader of the Liberal/Social Democratic Alliance, 35% preferred David Steel, 26% Shirley Williams, 15% Roy Jenkins, 7% David Owen and 1% William Rogers.

/...

(c) Marplan (Guardian 25th September 1981)

A Marplan poll published in The Guardian on 25th September and conducted on September 17/18 looked at attitudes to the Labour Deputy Leadership elections. They found Mr. [illegible]ley was the most popular candidate amongst Labour supporters.

(d) Gallup (Daily Telegraph 29th September 1981)

The Daily Telegraph published on 29th September the results of a Gallup survey conducted in Croydon North West between September 25th and 27th. They found 27½% of the electorate claiming they would vote Conservative, 35% Labour and 36½% Liberal-Social Democratic. Among those electors who claimed they would definitely vote in the by-election (58% in the survey) Gallup found the Alliance and Labour neck and neck.

When asked about issues, 31% considered unemployment to be the most important local issue, 26% rates and 22% education. The survey found significant differences between the attitudes of supporters of the main parties with regard to answers to this question. For Conservative supporters the most important local issue was rates (mentioned by 38%) whilst among supporters of both Labour and the Alliance, unemployment was regarded as the most important issue.

Gallup also asked 'If Shirley Williams were the Liberal and Social Democrat Alliance candidate, would you be more likely to vote for the Alliance, less likely or would it make no difference'. They found:-

	All	Con Supporters	Lab Supporters	SDP/Liberal Supporters
	%	%	%	%
More likely	24	15	19	42
Less likely	12	16	12	10
No Difference	55	61	61	47
Don't know	9	8	8	1

(e) Gallup (Sunday Telegraph 27th September 1981)

The Sunday Telegraph on 27th September included the results of a Gallup survey on attitudes to the Labour Party conducted from 16th to 21st September. Gallup asked respondents how they would place the four main parties in terms of a left-right scale. They found:-

Left-Right

	Conservative Party	Labour Party	Liberal Party	Social Democrat Party
	%	%	%	%
Far left	5	15	2	3
Substantially left	1	22	1	1
Moderately left	2	18	5	8
Slightly left	1	8	17	14
Slightly right	5	3	18	14
Moderately right	16	4	9	7
Substantially right	24	2	2	2
Far right	22	3	1	2
Middle of the road	1	2	13	9

The electorate sees the Conservative Party as being right wing, Labour left wing and both the Liberals and the Social Democrats as being parties of the centre.

86% of respondents saw Labour as being a divided party. 28% thought they were divided because of fighting amongst themselves, 12% because of conflict between moderates and extreme left, 12% on the leadership issue, 12% because far left attempting to take over and 10% because of Tony Benn.

When asked about Mr. Foot as leader of the Labour Party, 42% wanted him to carry on, 45% be replaced by someone else and 13% did not have a view. When asked who would replac him as leader, 40% selected Denis Healey and 10% Tony Benn. When asked to select from a list of Labour leaders any they would not like to see lead Labour - 56% selected Tony Benn, 16% Denis Healey and 10% Peter Shore.

On the question of the close relationship between the Labour Party and the trade unions, 52% thought it was a good thing, 35% a bad thing and 13% did not have a view.

Gallup asked respondents what changes they thought Labour would make if they won the next election. They found:-

Changes if Labour Won Election

	More	Less	No Change	Don't know
Direct Taxation (e.g. Income Tax (%)	35	24	27	14
Union Power (%)	59	7	25	8
Government help for the nationalised industries (%)	73	7	10	10
Unemployment (%)	19	40	31	10
Government control over people's lives (%)	34	18	33	15
Control of Incomes (%)	41	18	25	16
Inflation (%)	36	25	26	13
Personal Freedom (%)	18	23	44	14
Encouragement for Small Business(%)	37	36	17	11
Immigrants (%)	25	23	38	14
Law and Order (%)	24	18	49	9
Industrial Disputes	29	33	28	10

When asked whether four policies would make them more or less favourably inclined towards Labour, Gallup found 48% thought a joint Labour Party/ Trade Union view on economic policy would make them more favourably inclined towards Labour. 54% thought a policy of pulling British troops out of Northern Ireland would make them more favourably incline towards Labour, 50% thought a policy of taking Britain out of the Common Market would make them more favourably inclined towards Labour. 37% said a policy of having no nuclea weapons based in Britain would make them more favourably inclined towards Labour - 41% said such a policy would make them less favourably inclined.

CONFIDENTIAL

INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

14 October 1981

PS/MINISTER OF STATE (L)

N

RECOVERY FROM THE INDUSTRIAL ACTION

On the first questions posed in your memo of 12 October there are so far as we are aware no cheques left over from the industrial action still remaining unbanked. All that we have on hand unbanked in the 2 Accounts Offices are about 1,150 cheques received during the past week which for a number of reasons - because they were unreferenced, unaccompanied by a payslip etc - cannot be banked until they have been given some individual corrective attention. The total value of these cheques is less than £1m. We do not have precise information from the 257 local Collections but there is no reason to think that they are anything other than to all intents and purposes also up to date again with banking.

There are however two comparatively small backlogs of accounting in the Accounts Offices. The first is a small number (about 2,200) of unidentified items (total value approx £5m) in a suspense account. These are cases for which we have banked the cheque but have been unable to identify the payer and thus update his record. Insofar as local action notices have been issued for these cases the

cc PS Chancellor
PS Chief Secretary
PS Financial Secretary
PS Minister of State (C)
Mr Middleton
Mr Monck
PS Customs & Excise
Sir Lawrence Airey
Mr Green
Mr Dalton
Mr Gracey
Mr Rogers

local Collector will request payment when it has already been made, but rather than hold up the whole exercise for such relatively small numbers we decided to risk the occasional complaint in this area. Clearance of the individual cases can be a slow laborious process but we expect to complete it by December.

The second accounting backlog still attributable to the strike is of about 7 weeks arrears of 'Refer to Drawer' (RD) cheques rejected by the banks. It totals about 5,000 cheques (total value £5m). The current backlog does not include any cheques drawn during the strike but its existence is due to concentration on other more pressing matters. We similarly expect to clear this arrear by December.

JHR.

J H ROBERTS

University of Salford

Salford M5 4WT

With the compliments
of the
Vice Chancellor

Telephone 061-736 5843

Telex 668680 (Sulib)

TOP ACK WM
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MR. DIXON
MR. CORLETT
MR. HAWTIN
MR. CROPPER
PS/IR
PS/C&E

35183

20/10/81.
PL distribute

22/10

University of Salford

Salford M5 4WT

From the Vice-Chancellor

Professor J M Ashworth
DSc, FIBiol

Telephone 061-736 5843
Telex 668680 (Sulib)

JMA/PW

20 October 1981

Mr K Baker
Minister of State for Industry
and Information Technology
Department of Industry
Ashdown House
123 Victoria Street
LONDON SW1

Dear Kenneth,

I enclose a proposal for a Technology Enterprise Centre which has been produced by the Salford University Industrial Centre Limited at my request.

The basic brief was to produce a workable scheme to promote Information Technology within the City of Salford, with particular reference to the Enterprise Zone. It is clear that any proposed scheme of this type must have the full support of both the City Council and at least one Information Technology equipment manufacturer. With this in mind the City Council have been kept fully informed of progress, and the format of the proposed Centre has been discussed with Information Technology equipment manufacturers.

The City of Salford Commercial and Industrial Council and the City Council are currently involved in establishing a Small Business Enterprise Centre and in fact one of the functions of this Centre will be to promote Information Technology. The City Council consider that the proposed Technology Enterprise Centre more than adequately covers this function and are agreeable to the Technology Enterprise Centre taking responsibility for Information Technology and working closely with the Small Business Enterprise Centre.

Of the Information Technology equipment manufacturers approached, it was decided that a new Racal Series 6000 equipment would be most suitable for a number of reasons, not least of all the references to Racal in the Pactel report. It is hoped to be able to benefit from Racals' undoubted experiences in communications when the second phase of the Centre's activity, the expansion to full electronic mail facilities, is started.

Included with the proposal are letters from the City of Salford Commercial and Industrial Council and the City Council and Racal which demonstrate their interest and support for the proposed Technology Enterprise Centre.

I should also add that Dacoll Ltd., (based in Bathgate, West Lothian) the major supplier of visual display units to the University, have expressed considerable interest in collaborating with the Centre in the production of

their own automated office equipment, which is seen as the third phase of the Centre's activity.

I would be grateful for your comments on the proposal. I hope that it is in line with Government policy on University/Industry cooperation as well as Information Technology and that the Department of Industry might give us the pump priming finance we need to get it off the ground in time to help firms as they move into the Enterprise Zone.

In view of the close relationship between this proposal of ours and the Salford Enterprise Zone I am sending a copy of this letter to the Chancellor of the Exchequer, Sir Geoffrey Howe and the Secretary of State for the Environment, Mr Heseltine.

Yours sincerely,

John

SALFORD UNIVERSITY TECHNOLOGY ENTERPRISE CENTRE

1. INTRODUCTION

1982 has been designated Information Technology Year, and the Government has indicated a desire to promote the use of Information Technology in the UK. A report by PACTEL* highlights the deficiencies in the present position in the UK regarding Information Technology, especially in the UK's ability to share significantly in the world market for related products. In view of this Salford University Industrial Centre Ltd is taking the initiative in developing a scheme for the promotion of Information Technology in the City of Salford, with particular reference to the recently announced Enterprise Zone. The vehicle for this promotion exercise is the subject of this proposal - the Salford University Technology Enterprise Centre (referred to as the 'Centre'). The Industrial Centre envisages very close collaboration with the City of Salford in drawing up the scheme and in promoting it. This proposal relates to a four year programme commencing in late 1981, at the end of which the Centre is expected to be self-supporting.

2. PROPOSED SCOPE

The essential purpose of the Centre is to promote the City of Salford's image in that it is adopting and making use of the new technology available and thereby attract tenants to the Enterprise Zone. The Centre will promote the use of Information Technology by offering a number of different functions:

(i) The initial task of the Centre will be to place in Companies, both within the Enterprise Zone and in the areas bordering on it in the City of Salford, an automated office facility. The Centre will then provide all customer support for the installed equipment - this will include on-site training of staff, consultancy/advisory service to Companies, modification/development of basic software/hardware to suit local requirements and arranging courses and seminars in Information Technology. In the initial phase of operation the automated office facility would consist of a single workstation: a visual display unit, a document printer (matrix type), a letter quality printer (daisywheel type) and sufficient disc storage for say one hundred average letters. No British Telecom equipment would be supplied with the initial workstation. It would be useful if in addition to standard word processing facilities the workstation had facilities for simple data processing offering potential customers (particularly small businesses) the ability to handle salaries, invoices etc. Based on information available at the present time it is anticipated that at least thirty 'sites' (allowing for more than one machine per Company) would be involved in the first year. Beginning during the second year the automated office facility would be expanded to take advantage of electronic mail facilities (developed either by the equipment manufacturer or the Centre or in collaboration) and existing communications networks (PSS - British Telecom's Packet Switched Service).

* A strategy for 'Information Technology', PACTEL. (PA International Group) report for NEB.

(ii) The Centre will provide a demonstration facility for the evaluation and demonstration of various Information Technology equipment, with particular reference to new equipment.

(iii) The Centre will undertake a program of new product development in the collaboration with one or more manufacturers of Information Technology equipment (especially, if not exclusively, British manufacturers) based on monitored feed back of users experience.

User experience of a manufacturer's equipment will be transmitted back to the manufacturer concerned.

(iv) The Centre will offer a consultancy service on all aspects of Information Technology. Particular subject areas where expertise exists will be highlighted (CAD/CAM, communications etc.).

(v) The Centre will set up suitable training programmes for both in-Company courses and Unit based courses. In addition the Centre will arrange seminars/short courses on the various aspects of Information Technology - such courses ranging from one day to one week in duration.

3. RESOURCES

(i) Staff

The proposed staff of the Centre would consist of the following:

Manager of the Centre	(O.R. III or IV)
Senior Support Analyst	(O.R. II)
Support Analysts (3)	(O.R. IA)

Typist/Receptionist/Secretarial facilities
(Separate or share existing staff)

The Manager of the Centre will be responsible for the day-to-day running of the Centre, organising development programmes, liaison with Companies participating in the initial workstations and seeking support from manufacturers of Information Technology equipment. The Manager will also be expected to generate funds for the Centre from consultancy services in Information Technology to the City of Salford and elsewhere.

It is anticipated that the customer support function as detailed in 2.(i) will require in the first year, two full time Support Analysts adequately to cover the expected thirty sites. The first year will also include the production of all training material (documentation/courses etc.). In subsequent years, the Support Analysts' workload will change once the training material is available, but as more Companies become involved with the Centre and the equipment installed is expanded two Support Analysts will still be required.

At least one workstation of the type used at the Company sites would be available within the Centre for collaboration with the manufacturers in the development of new software, communications research, hardware development etc. This development system would be under the control of the Senior Support Analyst, who together with the third Support Analyst would be responsible for system back up. The programme of new product development would also be the responsibility of the Senior Support Analyst, supervised by the Manager.

The Senior Support Analyst would also be expected to act on behalf of the Manager of the Centre at appropriate times. Secretarial support for the Centre could be provided either by a Centre Secretary or by making use of existing facilties (if the Centre is sited on Campus) - although such services would then be charged to the Centre.

(ii) Accommodation

Office requirements:

1	Manager's Office (+ Secretary Office)	200 sq ft (includes Sec Office)
2	Two person Offices (S.A's)	total 400 sq. ft
1	Demonstration/Seminar Room	600 sq. ft
	Total area:	1,200 sq. ft

All offices and the demonstration room will require appropriate services to allow the development and demonstration systems to be used. The developments of electronic mail facilities will require the installation of British Telecom lines and modems in at least one of the S.A. offices and the demonstration room.

(iii) Equipment

The choice of the equipment for the initial system, as detailed in 2.(i), should satisfy the following criteria:

a) The equipment should offer in addition to word processing some simple data processing capability.

b) As it is intended to expand the automated office facility with electronic mail the equipment must have the necessary communications hardware either included or available.

c) The equipment must have a clearly defined upgrade path - it is important in a 'pump-priming' exercise of this type that 'introductory' equipment has a long 'on site' life.

4. FINANCIAL ESTIMATES

The Salford University Industrial Centre Ltd is seeking funds from the Department of Industry to set up the Centre. The various cost elements associated with the Centre are detailed at the end of this section with an indication of a four year plan for the Centre.

The major item in the costings relates to equipment. It is intended to offer Companies a single workstation for a trial period of up to four months. At the end of this trial period the Company can purchase the equipment at 50% of the cost and the Centre will fund the remaining cost.

Further workstations will be supplied to Companies at normal cost via the Centre. The Centre will therefore need to purchase initially fifteen workstations to place at Companies as demonstration units although after the trial period half the cost of the equipment will be recouped from Companies.

Income from consultancy services will probably start at a fairly low level in the first year but from the second year it is anticipated that it will rise quite sharply and continue increasing as the Centre becomes established. Major income associated from new products is unlikely to appear much before year 3, and cannot be estimated sensibly at the moment, but there are obvious possibilities of making 'real' money. Income from courses/seminars should provide a steady and increasing source of funds.

The expenditure of the Centre can be considered under five headings:

(a) Site costs These costs are estimates based on rates/rents associated with sites on the Enterprise Zone

Rates	£4000 p.a.
Rent	£4000 p.a.
Services	£2000 p.a.

(b) Staff costs (mid point of salary + overheads)

1 OR III/IV	£15,800/18,400	Manager
1 OR II	£13,225	Senior Support Analyst
3 OR IA	£27,600	Support Analyst
(1 Sec.2)	£5,200)	Secretary

(c) Equipment

As indicated above the major cost in year 1 will be the purchase of fifteen workstations as demonstration units. Until a decision has been taken on the exact equipment to be used there are no precise figures for costs, however most equipment of the type described earlier is in the same price range. viz. £8,000.

The cost of 15 workstations is therefore approx. £120,000

Additionally two workstations are required for the Centre, cost £16,000.

Given that the proposed arrangement is for the user to eventually pay half the cost of the workstation this will give a total buying power in year 1 of 30 workstations.

In year 2 an amount of money will be set aside for further equipment purchases - but it is seen as year 1 being the major expenditure on equipment.

(d) Consumables

This covers such items as paper, printer ribbons, printer spares, general stationery etc. Estimate in year 1 ~£5,000. This figure will probably rise directly with increase in business.

(e) Maintenance of equipment

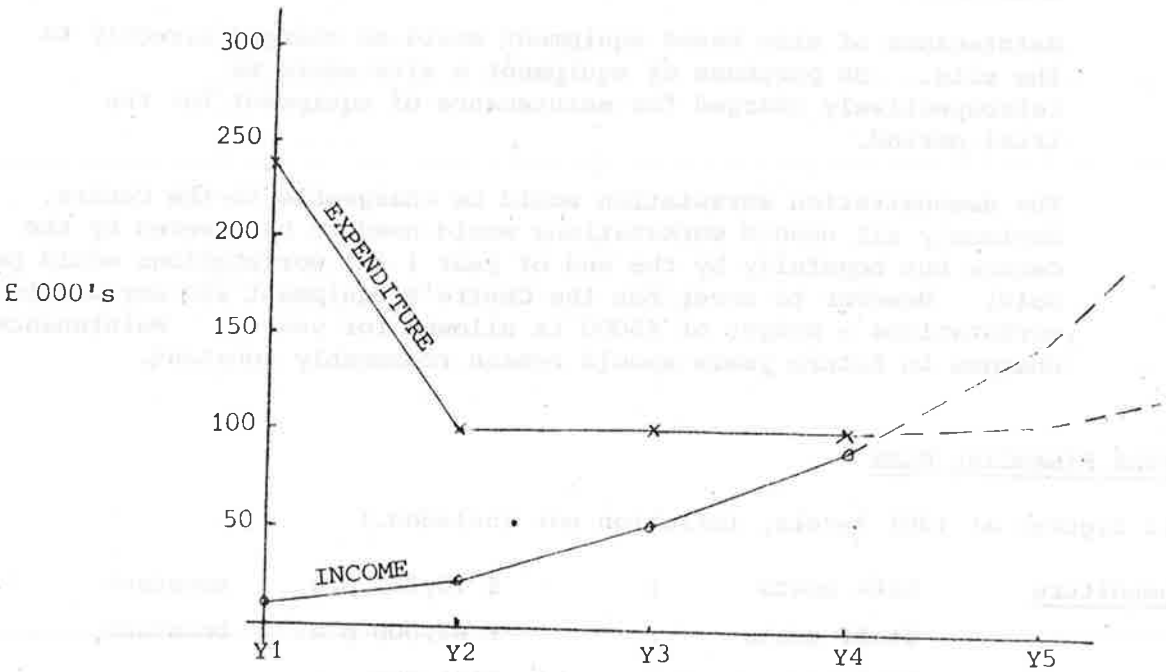
Maintenance of site based equipment would be charged directly to the site. On purchase of equipment a site would be retrospectively charged for maintenance of equipment for the trial period.

The demonstration workstation would be chargeable to the Centre. Obviously all unsold workstations would need to be covered by the Centre but hopefully by the end of year 1 all workstations would be sold. However to cover for the Centre's equipment and any unsold workstations a budget of £5000 is allowed for year 1. Maintenance charges in future years should remain reasonably constant.

4 YEAR FINANCIAL PLAN

(All figures at 1981 levels, inflation not included.)

Expenditure	Site costs :		£ 10,000 p.a.	constant
	Staff costs :		£ 62,000 p.a.	constant
	Equipment costs :	Y1	£136,000	
		Y2	£ 20,000	
		Y3	£ 20,000	
		Y4	£ 20,000	
	Consumables :	Y1	£ 5,000	
		Y2	£ 5,000	
		Y3	£ 6,000	
		Y4	£ 6,000	
	Maintenance :	Y1	£ 5,000	
		Y2	£ 3,000	
		Y3	£ 4,000	
		Y4	£ 4,000	
Income	Consultancy :	Y1	£ 5,000	
		Y2	£ 15,000	
		Y3	£ 40,000	
		Y4	£ 65,000	
	Training :)	Y1	£ 2,500	
	Courses/Seminars)	Y2	£ 5,000	
	Documentation etc.)	Y3	£ 10,000	
		Y4	£ 20,000	



In the figures used here no account has been taken of any possible income from new peoducts (expected no earlier than Y3) or from any OEM arrangements. It is possible that the chosen supplier will offer the Centre favourable discount terms for the purchase of equipment and in that case the supply of additional equipment to sites could generate considerable income - such that the break-even point would occur in year 3.

5. <u>The Role of the Centre with the City and IT equipment manufacturers</u>

For the Centre to function successfully it is essential that very close links with the City are maintained. The City Council are in the process of establishing a Small Business Enterprise Centre, and one of the proposed functions of the Small Business Enterprise Centre is covered by the Technology Enterprise Centre. A series of meetings with the City have taken place recently and it has been agreed that the proposed Technology Enterprise Centre should take responsibility for promoting Information Technology and work closely with the Small Business Enterprise Centre.

The location of the Technology Enterprise Centre has not been finalised at this stage, however, preliminary discussions indicate that suitable accommodation can be found initially in the Industrial Centre and the University. It would seem likely however that the Small Business Enterprise Centre and the Technology Enterprise Centre would eventually be housed in the same building.

Several manufacturers of Information Technology equipment have been approached regarding the Technology Enterprise Centre and the general reaction is enthusiastic. The equipment chosen for the initial workstations is the Racal Information Systems Series 6000. The series 6000 fulfils the requirements detailed in section 3(iii) and in particular Racal's experience in the field of communication should ensure the success of the developments of electronic mail etc. Additionally the PACTEL report indicated that Racal was the only British company showing rapid growth and high profitability in the Information Technology market place.

Richmond Court
309 Fleet Road,
Fleet,
Hants. GU13 8BU.
Tel: (02514) 22144
Telex: 858294/5

Mr. K. P. Teare,
Assistant Director (User Services),
University of Salford,
SALFORD,
Manchester.
M5 4WT

Racal Data Communications Group Limited

Your ref | Our ref GM/PR | Date 16th October, 1981

Dear Mr. Teare,

Thank you for visiting Barry Stuttard and I and outlining your plan for a Technical Enterprise Centre within the City of Salford's Enterprise Zone. We both found your plan well conceived, and believe that the Centre will provide a valuable service to companies setting up or developing their business in Salford. We would be happy to be associated with the project which I trust will receive the wholehearted support of all concerned at your end, in the near future.

As we discussed, Racal Information Systems has recently announced an advanced microprocessor system called Series 6000. This meets very closely the specification you described for the equipment you wish to install in the Companies in the Enterprise Zone in that it can perform data, text and word processing and is designed for the smaller operating unit. Also a large amount of systems and applications software is available for the Series 6000,so that it can be put into productive use a short time after installation and with a minimum of staff training. We will be happy to supply this equipment to you at our standard dealer terms which of course represent a considerable discount from our normal end user prices (a typical equipment configuration including keyboard display and printer is sold to end users for approximately £6500 depending on precise configuration).

Once the decision to proceed has been taken I would suggest that you, and any of your staff you may wish, should attend one of Racal Information Systems' dealer seminars where you would receive a detailed description and demonstration of the Series 6000 and hear about the extensive support which would be available to you. The seminar would also provide an opportunity to meet the Racal Information Systems people with whom you would be working as your project develops. Later you and your staff could attend some of the regular comprehensive courses which are run.

RACAL
The Electronics Group

During your visit with us you mentioned the recent PACTEL report on "A Strategy for Information Technology". As you probably noticed, the report nominated RACAL as the only British company in information technology with a substantial international reputation and presence. I trust that through our association with your Technical Enterprise Centre you will reap some of the benefits of our world-wide activities as well as making use of the products and support of one of RACAL's British companies.

Yours sincerely,

GMeadowcroft.

G. MEADOWCROFT
Director

City of Salford

Chief Executive
R. C. Rees, M.A., LL.B

Civic Centre, Chorley Road, Swinton,
Manchester, M27 2AD
Tel. 061-794 4711 Telex 669806

My ref: RCR/JL/CE/W/12
Your ref:
Date: 19th October, 1981

Subject: SALFORD UNIVERSITY TECHNOLOGY ENTERPRISE CENTRE

Dear Professor Ashworth,

I have pleasure in confirming on behalf of the City Council that on 6th October, 1981 the Policy and Resources Committee approved in principle the establishment of a Centre to be known as "The Salford Business Enterprise Centre".

This Centre has been initiated through the City of Salford Industrial and Commercial Development Council which as you are fully aware comprises representatives of industry, Chamber of Commerce, Trade Unions, Salford University and members and officers of the City Council. The background to the proposal is set out in the accompanying copy report dated 25th September, 1981.

In drawing up the report dated 25th September at paragraph 3(iv) we had in mind the establishment of the "Salford University Technology Enterprise Centre" and I have discussed with Mr. Teare of the University the document which you have prepared relating to the linkage between the University and a major electronics firm with a view to establishing such a Centre. It is envisaged that such a Centre would for practical purposes be independent, but nevertheless operate within the proposed building which will house the Business Enterprise Centre. As you know we are actively negotiating with a major international company to provide within that Centre and complementary to the University proposal a Business Enteprise Agency.

On behalf of the City Council and of the City of Salford Industrial and Commercial Development Council we would like to support very strongly the University's submission to the Department of Industry for support for the proposed University Technology Enterprise Centre. The successful economic transformation of the country's industry is surely dependant upon the success of the innovatory projects like this. We do hope that your iniatives with the Department of Industry will prove fruitful.

Yours sincerely,

Dictated by Mr. Rees, but signed in his absence.

Professor J. Ashworth,
Vice Chancellor,
University of Salford,
Salford M5 4WT.

Encl:

SALFORD BUSINESS ENTERPRISE CENTRE

(1) The approval in principle of the City of Salford Industrial and Commercial Development Council is sought to the establishment of such a centre.

(2) Negotiations will take place with Central Government through the Inner City Programme and the Manpower Services Commission for the acquisition of a suitable building.

(3) The role of the proposed centre is difficult to define precisely and it is envisaged that it will develop with experience. It is likely, however, to include with varying emphasis the following targets :-

(i) A centre where industrialists, and particularly local industrialists, may demonstrate technological products.

(ii) A centre where advice may be given to businessmen and entrepreneurs, particularly small companies who are seeking to manufacture. This role may be called 'A Business Advisory Role'.

(iii) A centre on lines similar to the Enterprise Agencies or ventures, such as the London Enterprise Agency This type of organisation would hopefully be supported, certainly on a short term basis by manpower from a major public company.

(iv) An Information Technology Centre/Workshop. This would be on the lines of the 'Small Business Centre' very recently set up by the Control Data Corporation of America in London.

A helpful note relating to this concept is appended hereto.

(v) A centre where young people may be trained and other unemployed persons may be retrained in new technologies with the support of the Manpower Services Commission.

R. C. REES,
CHIEF EXECUTIVE

Encl.

Civic Centre,
Swinton,
M27 2AD.

25th September, 1981

PTO

PROPOSED SCOPE

The essential purpose of the Unit is to promote the City of Salford's image in that it is adopting and making use of the new technology available and thereby attract tenants to the Enterprise Zone. The Unit will promote the use of Information Technology by offering a number of different functions:

(i) The initial task of the Unit will be to place in Companies, both within the Enterprise Zone and in the areas bordering on it in the City of Salford, an automated office facility. The Unit will then provide all customer support for the installed equipment - this will include on-site training of staff, consultancy/advisory service to Companies, modification/development of basic software/hardware to suit local requirements and arranging courses and seminars in Information Technology. In the initial phase of operation the automated office facility would consist of a single workstation: a visual display unit, a document printer (matrix type), a letter quality printer (daisywheel type) and sufficient disc storage for say one hundred average letters. No British Telecom equipment would be supplied with the initial workstation. It would be useful if in addition to standard word processing facilities the workstation had facilities for simple data processing offering potential customers (particularly small businesses) the ability to handle salaries, invoices etc. Based on information available at the present time it is anticipated that at least thirty 'sites' (allowing for more than one machine per Company) would be involved in the first year. Beginning during the second year the automated office facility would be expanded to take advantage of electronic mail facilities (developed either by the equipment manufacturer or the Unit or in collaboration) and existing communications networks (PSS - British Telecom's Packet Switched Service).

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User experience of a manufacturer's equipment will be transmitted back to the manufacturer concerned.

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(v) The Unit will set up suitable training programmes for both in-Company courses and Unit based courses. In addition the Unit will arrange seminars/short courses on the various aspects of Information Technology - such courses ranging from one day to one week in duration.

CONFIDENTIAL

cc Mr Ryrie 5/11

5/11/81

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Ridley
Mr Cropper

Note on the CPS Nationalised Industry Policy Group Meeting on Wednesday 4 November 1981 (at the Institute of Directors)

Background The Speaker was Sir William Barlow. Although he ranged over BL, the Coal Board and the nationalised industries in general, his useful remarks were limited, in my view, to what he said about the prospects for privatising British Telecom. I do not know how fraught Treasury relations with him have been. His attempts to break out of the PSBR seem to have left him with a deep distaste for "the Treasury". However, unless there are good reasons for believing otherwise, which are unknown to me, I believe that his experience ought to be directly relevant to the work to be undertaken under the Financial Secretary's chairmanship on prospects for privatisation (His minute to you of 29 October 1981).

Barlow said that:

There was no reason why BT could not be 'denationalised' within this parliament. It could be treated broadly in the same manner as Cable and Wireless. There not, however, be a regulatory body to limit the exploitation of its natural monopoly position though excessive price rises. (He condemed recent price rises by BT as "shameful"). The only obstacle he saw to privatisation was the unions.

Other possible ways to privatisation of BT were:

- Splitting of the international business offfrom it and selling that separately: it is already in practice a separately managed business.

- division of it into its 10 regions.

He condemed the lack of progress towards a swift relaxation of the monoply.

CONFIDENTIAL

In answer to doubts which I expressed about how far competition could be introduced into the main parts of BT's present activities - whether privatised or not - he asserted that:

- $\frac{1}{3}$ of BT's total business could eventually be moved into the Private Sector through relaxation of the monopoly on the supply of services and equipment.

- $\frac{1}{3}$ was long distance where the introduction of micro-wave and satellite systems and the use of fibre optics would allow sufficient competition on the main routes.

- $\frac{1}{3}$ was local calls where "the advance of fibre optics opens up possibilities".

Comment: I was conscious a) that Barlow may have to some degree been playing to his CPS audience.

b) that he was unclear about his proposed solutions (and even move unclear about why BT should simply be taken out of PSBR altogether.)

But his suggestions that i) there was a real practical possibility of early action on privatisation (if only of parts of BT's business, other than equipment supply etc.)

and ii) that competition could be genuinely introduced into most of the business - not just peripherals - seemed to me worth investigating.

Finally, if point ii) above is correct I suspect that many of the problems about setting up a regulatory body on price (rather than just standards) cease to apply - for such a body might be unnecessary.

RH

ROBIN HARRIS
5 November 1981

H. M. TREASURY

Parliament Street, London SW1P 3AG, Press Office: 01-233-3415
Telex 262405

PLEASE NOTE EMBARGO

NOT FOR PUBLICATION,
BROADCAST OR USE ON
CLUB TAPES BEFORE 20.30 HOURS
TODAY FRIDAY 6 NOVEMBER 1981

→ Ms Rutter, Chancellor's Office.

6 November 1981

Extract from a speech by the Chancellor of the Exchequer, the Rt Hon Sir Geoffrey Howe, QC, MP, to the Welsh Development Corporation at the City Hall, Cardiff, tonight, Friday, November 6, 1981.

PRESS OFFICE
HM TREASURY
PARLIAMENT STREET
LONDON SW1P 3AG
01-233-3415

163/81

H. M. TREASURY

Two messages emerge very clearly from the long industrial history of Wales. It is clear, first of all, that change does sometimes destroy jobs. But it is clear too that the struggle to present outdated industrial structures does not help.

One of the main lessons of industrial and technological progress - more or less since the wheel was first invented - is that as one door closes, another opens. The trick is to find the open door, not to keep the closing one open. I reject the view that there is only a limited amount of work available which has to be shared out. Always there are enormous opportunities for a reduction in unemployment, if only we can be flexible enough to take them. While some markets shrink, others

/grow -

grow - in other parts of the world, in other parts of the market. In any but the shortest term, what loses jobs is not change, but the vain attempt to prevent it. For we cannot isolate ourselves, as competitors overseas adapt and improve their performance - and beat us in the market place.

/In these

In these circumstances, Britain and Wales have had, and have, no option but to face rapid and uncomfortable change. The agony has been all the worse because our predecessors postponed necessary changes for far too long. What could have been a gradual process of adaptation has had to be radical and rapid.

Of course the Government must cushion the impact of change on those hardest hit. That's why we're this year spending some £1 billion on Special Employment Measures, why over half a million places are this year being provided under the Youth Opportunities Scheme, and why 370,000 people are now helped by the Temporary Short-time Working Compensation Scheme.

But we must not repeat the mistake our predecessors made of resisting change. The Government is committed to the encouragement of the right kind of change. The wrong kind of change can be disastrous.

/Take, for

Take, for example, the suggestion that we should leave the European Community. Here in the Development Corporation for Wales you know only too well the disastrous effect this would have on inward investment into Wales. The Japanese Companies like National Panasonic and Sony are here precisely because we are part of the European market. And because they are eligible for EEC finance for their investment here. If we left the Community, they'd leave us. In the same way, those who call for full import controls are really threatening to create a stagnating, back-water economy that would have opted out of competing in the world - and would soon be unable to do so.

And I am afraid I must be similarly discouraging to those who urge us to solve Britain's economic problems by making our policies more accomodating. People talk of "modest reflation" or "stimulating demand" as though, by turning on a tap, the basic problems of productivity and competitiveness can be evaded. But the truth is that during the 1970s, we saw a 300 per cent increase in wage costs while output rose by only 15 per cent.

/The problem was

The problem was that too little was done to stop the steady decline in both the competitiveness and profitability of British industry. Only 5 pence in every extra £ of demand went into higher output; the other 95 pence went into higher prices or higher imports. The causes of today's unemployment and inflation do indeed lie back in the 1960s.

And so today, and for years to come, we face the task of encouraging the changes that will bring back into work the tens of thousands whose jobs have been destroyed in today's whirlwind of long-delayed economic change.

It is to that end that we have got rid of a lot of controls, controls that can only inhibit change. Thus exchange controls, dividend controls, price controls and pay controls have all gone. We have set up eleven enterprise zones where people can set about things in a different way. When the development of the Lower Swansea Valley Enterprise Zone, designated on 11 June this year, has been completed,

/it is estimated

it is estimated that some 6,500 new jobs will have been created in the area.

We are carrying forward a programme for the introduction of private capital into State-owned industries, so that they can reap the benefit of changes produced by the disciplines of the market place. At the same time we have given massive support to key public industries - BSC, NCB and BL - to assist them to become competitive again. As we all know, although at great cost in human terms, huge advances have been made in the steel mills of South Wales.

We have been helping British firms to win big export orders. And, of course, encouraging inward investment through regional and selective incentives. Sony and Ford are only two of the many foreign-owned firms making major contributions to the Welsh economy. I know what a crucially important part the Corporation has played in generating overseas interest in the industrial and commercial life of Wales, and persuading potential investors looking at European

/opportunities

opportunities to choose to base themselves here.

An important local success story has been the GEC-Hitachi factory at Hirwaun industrial estate near Aberdare. The most significant aspect is the way Japanese technological know how and quality control methods have married with the skills of the Welsh workforce to produce success. From producing 120,000 sets in 1979 the factory nearly doubled production in 1980, and a further increase to 400,000 is planned in 1981. And 400 new jobs have been created since summer 1980. It is worth noting that whereas 5 per cent of effort went into quality control, the proportion is now 25 per cent.

Within Wales, the Government's record in supporting industry - particularly industries with a future - has been much better than its critics would have you believe. In 1981 so far, 89 offers of selective assistance for new projects have been made to firms: these will bring some 6000 new jobs, and safeguard 300 existing ones. We have carried

/out the

out the greatest programme of infrastructure improvement and factory building ever seen in Wales. And despite the recession we have maintained virtually untouched the programmes of motorway and trunk road construction here.

Last year the Welsh Development Agency allocated over 1 million square feet of factory space, and 131 factories - close to the all time record of 1979. This year it looks as if the record will certainly be beaten by a comfortable margin. Indeed in the first 9 months of 1981 more new government factories and more factory space have been allocated to Wales than in any previous 12 month period under any government. That is a remarkable indication of the fundamental strength of the Welsh industrial base at a time of recession. And a clear indication of the potential for recovery.

We are also encouraging innovation and new technology by a range of new government programmes in collaboration with industry. Not for nothing has 1982 been designated Information Technology Year.

/And we are

And we are helping to finance research and development in fibre optics: a £15 million investment at Shotton is producing 150 new jobs.

And we are actively fostering and encouraging the growth of such businesses, which can be a channel for new enterprises and new energy; they can adapt quickly and responsively to changing markets, and are important sources of lasting employment. The tax climate has been made more favourable by cuts in the top rates of income tax, and by changes in capital and company taxation. Schemes such as the Venture Capital scheme, Loan Guarantee scheme and Business Start-up scheme have all made it easier for small businesses - and those wishing to start them up - to raise finance. We have also relaxed controls and regulations in the planning system. In Wales these measures are already bringing results. This year enquiries at the Welsh Office Small Firms Information Centre are up by 50 per cent on the same period a year ago; and 39 loans worth £1.3m have been granted under the Loan Guarantee scheme.

/But change

But change is a task for all of us, and not just for Government. Nowhere perhaps is a further change more necessary than in our attitudes to pay bargaining. British exports are on average about 40 per cent less competitive than they were in 1975. Yet the £ exchange rate is more favourable to exporting than it was then. The explanation is that unit labour costs have been rising faster in the UK than overseas.

Fortunately there now are clear signs that attitudes are altering. People are realising that no employee - whether in the public or private sector - is automatically entitled to a pay increase of any particular amount. They are realising that the money has to come from somewhere. To use an old-fashioned word, it has to be earned. We cannot afford to repeat the disastrous decade between 1970 and 1980 when money incomes increased, as I have said, some twenty times faster than output. The phrase my predecessor coined for that - "confetti money" - was entirely appropriate: although, as he fully appreciated, it was anything but a cause for

/celebration.

celebration.

So change, on the part of everyone, is not just welcome but necessary. And here tonight, in the Development Corporation for Wales, we have one of the key agents of change. Your job must be to emphasise the adaptability and inventiveness of those you represent; the high quality of the Welsh workforce and the good industrial relations found in most manufacturing concerns in Wales; Wales' traditional and continuing willingness to accept change, and the new spirit of realism alive in Wales, and indeed the whole United Kingdom.

Industrial policies in Europe

A study of policies pursued in European countries and the EEC and their implications for the UK

I need a summary of the specifics – if any – which emerge from all this

National Economic Development Council

This paper, prepared by the National Economic Development Office, was presented to the National Economic Development Council at its meeting on 5 October 1981. The paper is now being given wider publication as a result of the discussion at that meeting.

Summary and conclusions

A very wide spectrum of industrial policy measures has been operated in Europe since the war. Almost all have been pursued at some time by the UK during this period. Yet UK industrial performance has been signally worse than that of our competitors, and UK growth of productivity—the most significant measure of competitiveness—continues to be among the lowest in Europe, as it has been since the 1870s.

The factors which determine industrial success are complex and varied. Culture, education, policies, and attitudes all play a part. It is not possible to segregate any particular policy, institutional framework, level or type of expenditure and identify it as the key ingredient to success. Moreover, macro-economic policy can often have a bigger impact on industry than those policies primarily designed to influence industrial structure and performance.

Nonetheless there are certain characteristics of industrial policy which appear to have played a contributory role in our competitors' relative success. These can be summarised as:

1 *Continuity and stability* of policy.

2 *Concentration of effort:* Mutually reinforcing packages of measures, including public purchasing, research and development support, investment aid, and training, have proved effective—within a framwork of limited resources—in establishing a strong presence in selective areas.

3 *A realistic view of long-term industrial priorities:* Most, if not all, of our European competitors have some systematic means for considering how the structure of their industry might look in the longer term and examining the implications of this for both macro- and micro-economic policy.

4 This has led to *an element of choice or selectivity*, supporting areas in which it is considered effort should be directed—a practice based on the principle of reinforcing success. Despite emphasis in the late 1970s towards 'horizontal' industrial policy measures, the pressures of rapidly changing patterns of trade and the development of new technologies have generated a more selective approach by governments, though in terms of technologies rather than products.

5 *Investment in human resources:* Many European countries have been putting increasing emphasis on education and training programmes in the last few years, following the example of Germany whose success has long been associated with its commitment to investment in human resources. These trends have been manifested in an increase in the numbers participating in apprenticeships and vocational programmes, sometimes anti-cyclically, as well as in efforts to increase the numbers of students in higher education and particularly in the applied sciences.

6 *Consensus* (whether explicit or implicit) *and commitment* are closely linked and are apparent both at national level and at the level of the company to a greater degree than in the UK.

None of the characteristics cited above are beyond our ability. An inherited culture and education antipathetic to industrial effort, the effects of two world wars, and unadaptive institutions, do not constitute valid excuses for failing to match our competitors' performance in these matters.

A number of them are matters on which Council has long found agreement—for example, the central role of industry in the health of the economy, the key importance of competitiveness, and the harnessing of existing instruments, institutions, and finance in a more effective industrial direction.

Many, though not all, are achievable without additional expenditure. However, without a clearer and agreed view of what our industry will need to look like a decade from now it is unlikely that we will move from the *ad hoc* to a joint and concentrated effort upon the industrial priorities on which this country must depend for its standard of living.

Industrial policies in Europe are increasingly becoming competitive with each other. This is not necessarily harmful, but it implies that the UK must be at least as successful as our competitors if it is to achieve even moderate growth during the 1980s.

The Continental example is relevant to us. Many of its components can be applied in the UK and are not conditional on any particular economic philosophy. There is a clear need for the NEDC to develop a view of how in practice this can be effected.

Industrial policies in Europe

Introduction

Almost all economic policies affect industry. Here discussion is largely confined to those whose *primary* aim is to influence industrial structure and performance. While there is a strong tendency to equate industrial policy with explicit measures such as grants, loans and other incentives, planning and various degrees of public ownership, it in fact also embraces a range of measures which seek to influence the framework of business activities, including competition policy, company law, the system of industrial relations and the scope for enterprise and innovation.

All European countries, including the UK, have been actively and continuously involved in such policies since the war. This paper does not attempt to provide a summary of the policy instruments used, not least because all countries have at various times used virtually all of the same wide range of instruments to a lesser or greater extent. Moreover, a detailed examination of the many schemes of support available in Europe was presented to the Council last year.* The current paper focuses on certain *key characteristics* of government policies towards industry and their possible implications for industrial policy in the UK.

This paper is supported by two appendices. The first summarises key features of industrial policy in eight European countries and the EEC. The second provides summary statistics on the post-war economic development of those countries. The conclusions recorded in this paper are based on extensive work in a wide range of official and independent sources.

Phases of post-war industrial policy in Europe

At least four rather different phases of industrial policy can be seen in Europe since 1945.

Phase I: the post-war decade

In the first decade after the war in a period of unprecedently rapid growth, four main elements dominated industrial policies:

1 The improvement (and, in some cases, reconstruction) of the basic infrastructure of the economies; the development of the coal, steel and transport industries and, on the social front, housing, health and education services.

2 Incentives to generate a high level of investment and saving.

3 The creation of a competitive framework for industry to encourage flexibility and efficiency as both internal and external controls were dismantled.

4 The Marshall Plan, which played an important role in providing access to vital materials, encouraging the dismantling of controls and providing investment funds on a large scale to help re-establish industrial growth. It also helped to stimulate an organised approach to identifying industrial priorities.

Phase II: the late 1950s until 1973

In the second phase, from the late 1950s until 1973, reconstruction gave way to consumer expenditure as the main impetus to economic growth. The explosion in demand for housing and consumer durables, aided by cheap energy, created fast rates of expansion in engineering and construction and in the complementary materials processing industries—steel, chemicals, rubber, aluminium, oil refining etc. In addition, the development of the Common Market, and the operations of GATT, generated more competition in Europe, in particular from US multinationals. Competition policy remained important in West Germany and the UK, but simultaneously size and technology became one of the chief concerns of industrial policy. France and the UK encouraged the creation of larger groupings to compete with the USA; Belgium's policy of attracting multinational companies brought diversification of the industrial base, together with foreign capital, know-how and technology. In West Germany, concern about the technology gap led to increasing federal support for R&D, and the establishment at the end of the decade of the data processing programme.

Towards the end of the 1960s, divergent growth between the new and older industries, particularly coal, shipbuilding and textiles, led to renewed concern for the regional issues, while increased awareness of environmental damage led to a growing body of regulations in relation to noise, pollution, health and safety.

Phase III: the early 1970s and the oil crisis

The third phase from the 1973 oil crisis to around 1975–6 was short but of particular importance. In retrospect it can be seen that 1973 marked the end of very rapid post-war growth in the developed countries of the West. But the early 1970s marked more than the end to an era of cheap fossil fuels. In addition, it saw:

1 A halving of the fast rate of population growth of the 1950s and 1960s with its concomitant demand for new housing, furniture, consumer durables etc.

2 The beginnings of an era when it seemed likely that micro-electronics and its associated technologies (eg telecommunications) would dominate developments.

3 The emergence of the newly industrialising countries (NICs) as an important element in world trade, exploiting mature and standardised technologies.

At the time, many of these trends were not fully apparent and most European countries treated the 1974–75 recession as they had earlier post-war cyclical downturns, reflating demand and taking steps to support employment in those industries which seemed particularly badly hit. This time, however, these included not only the traditional problem industries such as shipbuilding and textiles, but industries such as steel, tyres, chemicals and man-made fibres which had previously shown greater resilience.

The three major OECD countries, however, the USA, West Germany and Japan—which together account for some two-thirds of the output of the developed economies of the West—deflated their economies to deal with the inflationary and balance of payments problems caused by the oil crisis, a stance which they have again adopted towards the second oil crisis.

The growing pressure for structural change therefore developed against a background of more deflation, higher unemployment and lower real profitability than in the earlier post-war decades. Governments inevitably found themselves deeply involved in 'negative' industrial support policies—that is policies which attempt to slow down the changes indicated by market signals and to some extent cushion society from their effects—at a time when policy should, viewed from a longer term perspective, have mainly been encouraging more rapid industrial adaptation and change. But slow growth and uncertainty in themselves created resistance to change.

Phase IV: 1976 to 1981

The most recent phase is characterised by:

1 Growing awareness of this constellation of forces making for rapid change, in particular of new technologies with ramifications across a wide and diverse spread of products, and of highly concentrated import penetration from Japan and the NICs in certain specific areas.

2 The desire by governments to extricate themselves from 'negative' support programmes, initially conceived of as temporary measures to prevent major closures and job losses. In some cases, however, the depth of the current recession has frustrated this, particularly in steel.

3 The realisation that while adjustment can generally occur relatively easily in an era of fast growth, the process is much more costly both in social and economic terms in conditions of slow or zero growth.

4 Acceptance of the fact that such conditions will be major features of the 1980s as a whole. Few countries see any prospect of a return to sustained fast growth before at least the late 1980s. Most explicitly recognise that only rapid reorientation of industry in order to concentrate on certain specific types of product can help to ease this problem.

Current policies

Although the development of industrial policy measures can often be explained better in terms of various social and political pressures rather than purely economic factors, current policies in Europe can nonetheless be understood against this post-war background. There is still continued emphasis on competition and free trade policies, which provide market-oriented ground rules for commerce, on substantial investment incentives, and on increasingly refined regional support policies. But there are now more attempts (partly at the instigation of the EEC) to modify large scale sectoral support programmes in order to bring about capacity reductions, restructuring and de-manning as a condition for further assistance. There is also growing emphasis on measures thought likely to provide flexibility and assist particular types of relocation.

Five such policies are particularly important in this respect.

1 *Sectoral support* All the major European countries have identified certain growth areas for the future, whether or not in a formal planning context, and are providing direct support for them. Most notable are information technology, micro-electronics, biotechnology, robotics and energy technologies.

2 *Public purchasing* Increasingly this is being used to foster the same type of industry as in 1. The telecommunications and defence industries—important purchasers of new technology—are both exempt from the EEC public purchasing directives, which have in any case so far had little impact.

3 *R&D support* In many countries this has become a major element in industrial policy, via grants and loans towards specific R&D costs, various tax allowances, support for a range of research institutions, dissemination of technical knowledge and support for the successful commercial launching of new products.

4 *Small and medium-sized businesses* This also is a fast growing area of support, partly to encourage entrepreneurship and innovation but also to assist the application and diffusion of knowledge throughout industries and to maintain the stimulus to competition.

5 *Education, training and re-training* These policies reflect not only the pre-occupation with new technologies and with increasing the flexibility of the workforce, but also in some countries attempt to make a virtue out of necessity in the current high levels of unemployment. Training and education are increasingly being regarded as an integral part of manpower policies.

**Adjustment policies in Europe*, NEDC(80)33.

The interdependence of policies

It is virtually impossible to disentangle the impact of industrial policies on growth from the many other economic and social factors which determine it. Nearly all types of instruments have been employed in countries with very different records of growth, and while there are signs that industrial policies have been more coherent and more effective in faster growing countries, it is not at all clear in which direction the causality runs. Whether current attempts to restructure the industrial base of European countries are successful will not be known for several years.

In addition, macro-economic policies aimed at inflation and balance of payments deficits have repeatedly had more immediate impact on industry and often severely limited the scope of industrial measures. In Belgium, for example, the problem of trying to contain unemployment, inflation and the budget deficit has prevented effective implementation of restructuring policies. In West Germany a policy of countercyclical economic management within a framework of moderate monetary growth, coupled with an effective wage determination mechanism, has generally been successful; and this has meant that support for industry, concentrated on regional, education and training, R&D and growth sector support, could be maintained as a continuing and stable element of policy. Only in France has a very distinctive industrial policy (referred to below) represented a continuing, moderately stable and important element in industrial growth despite often severe and continuing difficulties with inflation, their balance of payments and unemployment—indeed France has deliberately used industrial policy to help solve these problems.

The diversity of policies

It must also be said that clearly there are many different routes by which industrial objectives can be furthered, and no particular policy, institutional framework nor method of implementation can be closely associated with success. West Germany throughout the post-war period has chosen a decentralised approach, eschewing any formal or detailed planning and focussing particularly on R&D, and on building up small and medium-sized firms. France, with a comparable level of success, has favoured a highly centralised approach, which in spite of Barre's attempts to reverse it in 1976–77, has probably increased in the last few years. Although industrial policy has been largely outside the formal planning mechanism, the approach has been 'planned' in the broad sense and has concentrated on particular key sectors and the building up of major national companies. Among the other European countries there has been a tendency to veer more towards the West German decentralised model, although some have attempted more general strategic planning and have identified particular sectors which appear good growth prospects. Many have been less able than West Germany to reduce sectoral commitments, particularly when political coalitions have been fragile. None appear to have achieved a degree of overall success matching that of France or West Germany.

In addition, while expenditure levels associated with industrial policy have generally risen in all countries, there is little observable relation between expenditure and industrial restructuring and growth. This is not surprising. Many elements of industrial policy involve minimal expenditure, most notably planning exercises and competition policy; many others may have effects considerably out of proportion to actual expenditure, in particular soft loans and guarantees, while tax incentives do not show up as 'expenditures' at all. Differences in the size and financing of the nationalised industry sectors of these countries further cloud comparisons.

General inferences from European experience

Although these points make for agnosticism, and put considerable limits on what usefully can be inferred, some more definite conclusions can be drawn, relating to:

1 The degree of selectivity involved

2 Formal, quantitative planning

3 Stability and continuity of policy

4 Mutually reinforcing measures

5 Consensus and commitment

6 Investment in human resources

7 The relation between industrial policy and the market mechanism

8 Increasing competition between the industrial policies of European countries.

The *first* conclusion relates to the degree of *selectivity* involved. In the early 1970s there was a growing tendency towards selection of specific sectors for assistance, and this was exacerbated by the series of industry crises that came in the wake of the 1974–76 recession. Recovery saw attempts to move towards more 'horizontal' measures (ie potentially available to all) coupled with restructuring programmes designed to ensure that governments could extricate themselves from heavy support for particular sectors. In part this shift reflected the belief that all sectors have areas of potential growth, and in part disillusion with previous attempts at selectivity.

To some extent the current recession has forced governments back to support of specific hard-hit sectors. But there is also an unmistakable move towards selectivity of a new kind. Certain trends, especially concentrated import penetration, emerging new technologies and rapidly expanding product areas eg energy exploration and development, have become much more evident, and there is increased recognition that they are creating inescapable pressures for adaptation. Direction of support in a way that reflects these pressures has therefore been seen to be a necessary element of industrial policy. This new selectivity is reflected in:

1 Specific priority to major growth sectors, often delineated in terms of generic technologies rather than traditional product areas;

2 Promotion of support which in appearance is general (eg R&D, subsidised loans, public purchasing) but which in practice can be applied in a highly selective manner;

3 More selective impact of some long-standing programmes, in particular employment subsidies, manpower and training policies, but also in some cases investment support and regional assistance.

There are therefore strong indications that despite the apparent shift to more horizontal measures, industrial policy has in practice become more selective recently.

***Second,* some conclusions about the effectiveness of formal, quantitative *planning* are possible.** It is clearly not a necessary condition for success, and although most countries have attempted centralised forward planning, in general—with the partial exception of France—it seems to have had little real impact. In the Netherlands it appears to have helped focus attention on the need for structural change in the post-1973 world, but against this Sweden, with a previously successful planning mechanism, was amongst the slowest countries to recognise the changed environment in which it would have to compete.

There has, however, been a subtle and significant change in attitudes to planning. Some of those countries which continue to adhere to a planning framework (France, Holland, Belgium) have substantially shifted away from the more quantitative indicative planning of the 1960s, instead developing broad sectoral assessments in a more flexible way as a means of identifying and giving priority to medium or long-term industrial objectives within the broad economic environment envisaged. This approach, though in a more informal way, is also a feature of other economies which do not have planning mechanisms as such, and is linked to the increased selectivity which characterises industrial policy. As a result, most countries in Europe now have at least some systematic means for considering how the structure of their economy might look in the longer term and the priorities which flow from this.

***Third,* there are indications that *stability and continuity of policy* is important.** While emphasis of policy inevitably changes over time, many people, observing the very different systems of France and West Germany, believe that these two characteristics have contributed to their success, partly by reducing uncertainties for industry but (as important if more mundane) by allowing greater familiarity on the part of both government and industry with the instruments used. The West German commitment to the data-processing industry is a particularly clear example of the benefit which may be derived from a policy developed and implemented over a substantial period of time. There are also signs that more stability over time provides an environment in which agreement is more readily achieved on movements in prices and incomes.

Fourth,* there appear to be substantial gains from linking industrial policy instruments together so that they represent a series of *mutually reinforcing measures. One example would be the recent Dutch legislation which introduced a package of measures comprising incentives for investment, R&D, innovation and training, combined with a reorganisation of sectoral aid with the purpose of bringing all sectoral schemes within one framework and aligning them more closely with EC guidelines. The French have long recognised the advantage of putting a package of incentives together into 'growth contracts' with companies or similar arrangements in order to secure maximum effect from expenditures. Integration of manpower policies with industrial policies rather than simple co-existence is another factor to which importance is attached.

***Fifth,* it is noteworthy that despite representing very different approaches, both French and West German industrial policies evince a considerable if varying degree of *consensus and commitment* amongst politicians, officials, industrialists, bankers and trade unionists.** Although the French system has often been arbitrary and unaccountable, it has generally succeeded because all involved were anxious to see the policies successfully implemented. It is obvious, but nonetheless important to note, that strong opposition to industrial policy measures by any of those involved in implementation is very likely to reduce their impact. General support for policy, therefore, has a considerable value quite separate from the elements actually agreed upon.

***Sixth,* the long run success of the German economy is associated by many with its long run commitment to investment in *human resources*.** This has taken the form not only of more emphasis upon applied science and technology at the university level, but of a long established tradition of vocational and skill training for all workers. Following this lead, many European countries have been putting increasing emphasis on education and training programmes in the last few years, increasing the number of those participating in apprenticeship and vocational programmes, sometimes anti-cyclically, as well as trying to increase the proportion of students in higher education particularly those studying applied sciences. Retraining and skill-upgrading are also seen as vital elements in creating a much more mobile, flexible and more highly rewarded workforce.

***Seventh,* the relation between industrial policy and the *market mechanism* is of fundamental importance.** There are three main aspects that merit consideration:

1 The pressure of market forces.

2 The direction of change indicated.

3 The responsiveness of companies in following market signals.

With regard to the first, although competition policy remains in place to strengthen market forces, and support for small business has similar effects, recent developments in industrial policy equally clearly recognise the intensity of international competition, particularly from Japan and the USA, and the need, in appropriate areas, to support larger units. This is almost inevitable in the small European countries, and has always been a feature of the French approach. In Italy it has been an outcome of the larger public sector presence in industry. Only in Germany, a large and successful economy in its own right, has this trend not been so evident. Conflict has therefore developed in some areas between the need to provide support, particularly for large scale innovative development, and the requirements of enhanced competition.

Secondly, with regard to the direction of change, policies which have sought to preserve existing positions against the tide of the market have usually taken much longer than initially foreseen, have been increasingly costly and have often not, in the end, been very successful; hence the growing emphasis on establishing timetables for contraction of capacity, restructuring of capital base and re-orientation of product mix as conditions of support. In contrast, policies which seek to work with the grain of the market generally prove more successful, though by no means always so. In certain cases there are clear grounds for wishing to override the results of pure profitability criteria, most notably on grounds of greater regional equity, but elsewhere long-term 'negative' support appears unlikely to be justifiable.

On the third issue of responsiveness, there is clear recognition in virtually all European countries that while the market mechanism will generally indicate the required direction of change, market incentives may often fail to generate a sufficiently rapid response. The ratio of return to risk is frequently perceived to be more favourable for established products, familiar processes/technologies and existing markets than for some of the dramatically new opportunities that have opened up in recent years. Countries have responded to this in different ways. West Germany has sought to encourage risk-taking through its support for R&D and encouragement of medium-sized business; France has sought to provide security for specific companies in key sectors; Belgium has attracted foreign multinationals better placed to generate finance for such activities; Italy has used its public sector. Some countries have been more successful than others, but all, including West Germany, have recognised that the strains currently imposed on the developed countries of the West are unlikely to be met without considerable government involvement.

The *eighth* and final point to be made is that increasingly the industrial policies of European countries are becoming *competitive with each other*. The same types of product in similar sectors and the same technologies are frequently the subject of support, sometimes through the same instruments. Integrated circuits, telecommunications, data processing and a range of micro-electronic applications are the most evident ones. This is not to be seen necessarily as harmful, and is almost certainly unavoidable. Economies of scale are as yet rarely such to make national-based companies inefficient (though this may change during the 1980s); competition in innovation is valuable and sound product differentiation and diffusion of ideas result from the process. But it does mean that the UK cannot take decisions on industrial policy in isolation without regard for what competitors are doing. If UK innovation is inadequate or misconceived; if policy is too diffused or its momentum weakened by instability or lack of continuity, then the UK will unavoidably become less competitive. To this extent the implications of European policies are not ones which can lightly be ignored.

EEC industrial policy

While the EEC has been concerned to achieve a fuller integration of the European market as a whole, its industrial policy has in other respects reflected similar trends to those of the individual countries. For a considerable period it placed most reliance on its competition rules, in particular those concerned with restrictive trade practices, but has more recently sought to inhibit negative adjustment policies and promote European programmes in new technology areas. As yet, these have been of limited impact; measures on the steel industry still represent a much more major element in its work than its unsuccessful attempts to develop a European strategy in, for example, electronics and chemicals. But in the longer term the EEC may help to ensure a strong European presence in a wide range of technology-intensive products. Another priority is simply to make its aid provisions more widely known, as this could enhance its effectiveness considerably without further policy changes.

The position of the UK

It is implicit in all the comments above that the UK can gain from an understanding of policy development in the other European countries. It is nonetheless evident that in a number of respects the UK is unique, and it must therefore be asked how this affects the conclusions.

By far the most important characteristic of the UK is its *long-term* growth of productivity. Growth of output per man-hour* has not only been below all the other European countries covered in this report since the war, but also as far back as 1870. Disregarding the impact of the two world wars, our productivity performance has lagged behind our European competitors in every major sub-period since then. Weak performance has also been manifest in loss of world market share and, more recently, very low profitability.

This suggests that many commonly expressed views about the causes of the UK's poor performance are at best only partial explanations. In particular this includes the legacy of outdated capital after the war, changing patterns of trade in the EEC, problems with our system of industrial relations, inappropriate demand management policies and excessive inflation. All may have contributed to the problem but none can be seen as a fundamental explanation.

Consideration of some of the major factors which are now considered to be associated with our long-term growth record tend to strengthen the conclusions drawn in the earlier part of this paper. An example may prove useful. Video (that is electronic visual presentation of data, etc) appears likely to be a major new area of technology in the next twenty years with very large scale application in both consumer and industrial product areas. Two UK companies made advances in video technology at a very early stage but this lead was not maintained, partly because the likely development was on too large a scale and over too long a time horizon, and partly because defence-related innovations offered more secure expansion. The UK has now missed first generation of video products. To compete successfully in the second generation it would need familiarity with the technology, the products and markets, access to particular skills, equipment and distribution systems, and at least some track record of successful and reliable production. Only a presence in the first generation can adequately supply all this, yet entry now would be very risky and of doubtful profitability. Evidence shows that initial costs would run to several hundred million pounds.

This suggests two major problems for UK industrial policy. First, how does the UK ensure greater success in areas where we have made major innovative efforts? Fibre optics, viewdata terminals, semi-customised integrated circuits, telecommunications networking transmission equipment, radio communications and related satellite equipment are all areas where the UK has a good basis for commercial success which may well slip away without positive policy support. Second, how does the UK establish a major presence in important growth areas in which others have achieved a strong lead, eg robotics, office information systems, and computer-aided design processes, as well as video?

The European experience

The European experience suggests some answers to both questions.

Some selectivity is unavoidable in order to identify broad product areas and technologies in which industry can foresee long-term viability. This will best be accomplished in the context of a view as to the areas in which, in the light of trade patterns and market pressures, the UK will be able to compete over the 1980s. A group of mutually reinforcing measures would then include substantial support for research, innovation and development, an appropriate manpower policy, explicit training measures geared to the areas identified, co-operation with financial institutions in order to provide support where necessary through early years of low returns, and a supportive public purchasing policy where appropriate. In some specific areas temporary import controls might also assist early development.

But many other problems would still exist. Where the UK is now faced with being a late or slow entrant, the investment required would not normally be funded by the financial markets, nor, without support, would companies normally seek such funds. No obvious shortage of funds appears, yet without some combination of soft loans, partial guarantees, investment grants or public funding the investment will not occur. Alternatively production licences and/or inward investment may offer a quicker means of entry, and a basis for subsequent development of the UK's own product base. Several smaller countries in Europe have used this approach, however, and it would be necessary to offer at least as advantageous terms, perhaps even including selective protection, in order to make such gains.

Another major problem is lack of education and training geared to the needs of industry. For over a century the UK's educational system has, in comparison with many other countries, been strongly biased against applied scientific and technical training. This has been true at university level, in schools and in vocational training, and is also reflected in the distribution of R&D effort. At the present time, in terms of scientific education of managers, training of school leavers, apprenticeships and numbers at higher institutions of technology, the UK is far behind most of the faster growing countries. In part this reflects an ethos that can be traced back to the last century, but it is still the case that any major expansion in many of the faster growing higher technology areas would run into a crippling lack of skill infrastructure very rapidly. Many measures are possible, eg changes in the financing of university research; provision of large incentives to companies commissioning university R&D; incentives to companies, colleges and individuals to introduce or expand sandwich courses; modification to apprenticeship systems so that they are based on standards rather than time served, and payment systems which make such training more attractive to companies. In short, clear recognition that most education must be to a purpose and that it is probably the key resource above all others which needs to be improved in the 1980s.

Providing continuity presents another major problem, industrial policy has in practice been less unstable than generally thought, but frequent changes in specific instruments have undermined its effectiveness. Equally serious, the expressed philosophies and debates about industrial policy have created great uncertainty and obscured what continuity has existed. In general terms the UK does not appear to have any institutional means of according a higher priority and more lasting commitment to industrial objectives.

None of these problems is new, nor is the UK totally devoid of success in handling them. The approach to micro-electronics for example indicates that there can be agreement and co-operation to select areas for support, long term commitment, aid for both R&D and production capability, and flexibility within an overall vision of the role that the industry is likely to play.

But this appears to be very much the exception. On a broader front, the UK seems much less able than most other industrial countries to bring about profitable commercialisation of new ideas, particularly where volume production is concerned. European experience indicates that this can and must be rectified, and provides several important leads to how this might be achieved.

*This is inferior to all-factor productivity as a measure but measures of the latter are not available for earlier years. The conceptual difficulties of using output per head as a measure of productivity were discussed in NEDC (81)24 on the role of the UK service sector.

Appendix A
Summaries of country studies

This appendix contains the summary and conclusion sections from the eight country studies prepared as background research for this paper. Although brief, they highlight the salient features of the industrial policies practised in these countries and help to provide some of the detail behind the generalisations of the main paper. They are arranged in alphabetical order. A short summary of EEC industrial policy concludes the appendix.

Austria

Austria has had a considerable degree of post-war economic success, which was particularly striking in the 1970s. This appears to have been based primarily on the consensus system which evolved after the war as a reaction against the earlier deep divisions and post-war occupation. This system has helped to achieve a voluntary incomes policy, a macro-economic policy based on full employment and low inflation, and good industrial relations; and it has enabled the large public enterprise sector of the economy to develop successfully. A more or less standard package of supply-side measures to promote investment (particularly foreign inward investment), regional development, exports and so forth has been applied to both public and private sectors. Much of this aid has been in the form of low interest loans. The 1970s have, however, brought some problems at a sectoral level, leading to growing cross-subsidisation within the publicly-owned sector as part of the full employment policy.

Belgium

Until 1975 Belgium's industrial policy was dominated by the objectives of boosting investment (and increasingly this came to be seen as encouraging inward investment) and the diversification of the industrial base. The result was surprisingly successful and brought fast rates of growth of both employment and productivity, a strong currency and unprecedented prosperity. The sharply changed fortunes of the main growth industries—steel, chemicals and vehicle assembly—in the post-1973 world and the difficulties which the Belgians have experienced in assimilating the macro-economic effects of the oil crisis have brought a hiatus in this pattern of development. Income and productivity growth have continued, albeit at a slower rate, but at the expense of employment, and with increasing diversity of fortune between regions and industries.

Within this context there has been increasing realisation on the part of industrial policy makers that the blanket approach of investment incentives is no longer appropriate and that more selective policies are needed which encourage the development of new industries and help the restructuring of older ones. There has also been some disenchantment with the high degree of dependence on multinationals. The problem has been to develop a coherent strategy along these lines at a time when unemployment has been rising fast and government depends upon a coalition of centre parties. In these circumstances inevitably short-term priorities take precedence over longer term objectives, and many well laid plans for industrial restructuring founder on the urgent need to maintain jobs.

France

Industrial policy in France derives from an interventionist tradition which dates back to Colbert. This pervades much of the industrial and economic system. Although the new socialist administration is likely to alter the slant of policy—for example, it is clear that a number of leading firms will be nationalised—it is unlikely that the mechanisms of policy will be radically changed.

The main thrust of these mechanisms is selective. Although in recent years publicity has been given to the shift *towards* less selective, more horizontal policies and *away from* the blanket support given to some sectors under the 'grands programmes', the latest programme—CODIS—is a highly selective 'winner-picking' process. Support is channelled through a variant of the growth contract (a mechanism which made its first appearance with the Third Plan) to firms developing products and technologies deemed by the CODIS committee to have good growth prospects or to provide important building blocks in the industrial infrastructure. They have been using this system unashamedly to support and promote new technologies—particularly the information technologies.

Selectivity is achieved because the policy instruments are predominantly administrative and discretionary. The most widely used is the soft loan, administered through nationalised institutions in the banking sector. Although the degree of favour involved (usually only 1 per cent) is relatively little at current interest rates, it achieves great leverage for little cost. Other discretionary powers widely used to exert pressure are loan guarantees, public purchasing and, formerly, price control. France also has extensive incentives to promote R&D and innovation, exports, regional diversification etc, and has comprehensive manpower training provisions.

As with any selective programme, it is not proof against mistakes. The French have made mistakes: their earlier Plans Calculs misfired badly and their gas-graphite nuclear reactor proved unviable. Their current strategy in electronics is a highly risky one and they have continued to pump considerable sums into industries such as textiles, footwear, steel and shipbuilding where prospects for viability are not particularly good. Their machine tool and mechanical engineering industries have been (and remain) internationally weak. It is also arguable that French industrial structure is still biased too much towards labour-intensive industries vulnerable to competition from the NICs and that the current emphasis on information technologies takes them directly into competition with Japan.

Nevertheless, France has succeeded in achieving one of the fastest rates of growth in Europe throughout the post-war era. This success is itself one reason why a system which lacks Parliamentary accountability has been so readily accepted. The other is because the very people who take the decisions in government move on to take top jobs in industry, and *vice versa*. The cadre of elite 'managers' trained through the Ecole Nationale d'Administration, combined with ease of movement in and out of government service, give a cohesion of approach, attitude and experience which makes 'consensus' easy to achieve—at least at the top and on the managerial side. It is reinforced by the discussion procedures—actions concertées—built into the system.

This administered system has the advantage of being able to change tack quickly (eg in the mid-1970s it achieved a *volte face* on computers and American technology): but it is vulnerable to political pressures. (Both steel and textiles have been examples of industries where political, rather than economic, reasoning has prevailed.) But a major strength of the French system is that debate and policy focus on medium- and long-term objectives (and the means of achieving these objectives) rather than short-term issues. This is a tradition established by the post-war planning mechanisms, and although the Plan has not recently played the central role in industrial policy that it did in the 1950s and 1960s, it nevertheless has continued to provide the forum for regular, informed debate of economic and industrial priorities.

Italy

There have been enormous structural changes in Italy since 1950. For example, between 1951 and 1971, 5 out of 8½ million people left agriculture, a net 4 out of 17½ million left the South (although the population continues to rise naturally), manufacturing employment expanded from 4½ to 6 million. But despite fast growth, Italy remains the poorest major West European country and its relative performance has deteriorated since the early 1960s.

Italian governments have suffered throughout from political weakness and administrative inertia, and it is never safe to assume that plans, or even laws, will be implemented. The general rule, if a policy is to be effective, is to create an institution independent of the bureaucracy. Where this has been followed, some surprisingly effective policies have been pursued—the state holding companies, the industrial credit institutions, the Cassa per il Mezzogiorno as an instrument for Southern development. Macro-economic policy, too, has been more effectively pursued by the Bank of Italy than by the government. But governments must be given credit for the decisions in the 1950s to dismantle import controls and join the EEC, thus giving Italy the chance to participate fully in the export-led boom of those years. Generally speaking, however, industrial development occurred in Italy independently of government policies.

Netherlands

Recognising the need to restructure their industrial effort, the Dutch government have since 1978 introduced a series of measures involving investment, R&D and innovation, training, manpower, energy and sectoral policies. The bias is strongly away from selective help to specific sectors and towards general measures to promote investment and innovation. Together the legislation constitutes a strong, comprehensive and mutually reinforcing policy package. It is too early to say how effective it will be in breaking the vicious circle of imbalances which currently afflict the Dutch economy. These imbalances, exposed by the rising tide of unemployment and the continuing deficits on external trade and public spending in spite of energy self-sufficiency, pose a severe policy dilemma for the Dutch. With productivity rising faster and incomes more slowly than most other European countries, the problem does not appear to be one of basic competitiveness, but rather one of underlying structure in both product and labour markets. Whether these measures will be sufficient to cope with these problems has yet to be seen—the fact that the balance of payments in 1981 has shifted into slight surplus can perhaps be seen as a good omen.

Norway

As is the case with most European countries, Norway in the latter half of the 1970s has been straddled between problems of cyclical recession and structural adjustment. In Norway's case, however, the problems of structural adjustment have been exacerbated by the discovery and exploitation of substantial reserves of North Sea oil and gas which have contributed heavily to both the balance of payments and government revenues. The strength of the krone has added to problems of competitiveness of traditional Norwegian industries, while buoyant revenues have encouraged the government to pursue expansionary policies to maintain full employment and counter the loss of competitiveness by subsidy. The result has been a very substantial rise in real domestic consumption while industrial output has stagnated. Mr Odd Aukrust, head of economic research at the Central Statistics Bureau recently attacked the Norwegian government's industrial policy for 'shuffling Norway backwards into the gas age', and for falling into the temptation to spend the oil revenues trying to preserve mainland industry from the effects of offshore oil wealth.*

To his eyes Norway's bold plans of 1973 to use oil revenues as a means of creating an 'alternative' industry for the day when oil ran out have been prostituted to the purpose of propping up the traditional (but declining) sectors of Norwegian industry. The problem is compounded by the fact that this contingency is now believed to be 100 years away.

Sweden

Sweden's successful economic performance during the 1950s and 1960s relied primarily on the high quality, high technology and general efficiency of her industrial sector, still based upon indigenous raw materials and energy. The centralised management and trade union organisations reached agreements on wages and industrial practices which enabled Swedish companies to attain high productivity and produce high value-added goods which sold well in the world market. Government policies did not play a direct role in achieving industrial success, but concentrated on the maintenance of high and stable levels of employment and the provision of a highly developed social welfare system. Even anti-inflation policy was largely determined by the employer and trade union organisations, though government remained in the background, available as the last resort. Some government encouragement was given to investment, training and regional development.

This system was coming under strain by the end of the 1960s. This led to a number of measures designed to give greater emphasis to industrial development. The failure of Swedish governments to realise sufficiently swiftly that the 1973 energy crisis marked a change in the long-term growth of the world economy and in Sweden's energy position, its commitment to a particularly rigorous policy of employment preservation, and a mistaken exchange rate policy, led to enormous sums having to be spent on maintenance of declining industries, employment preservation and aid to depressed regions. These factors have caused rapid inflation and serious deficits in the balance of payments and public sector. Although the problems have now been recognised, there is no firm evidence yet that the government has succeeded in overcoming them. Political instability and the breakdown of consensus are further inhibiting factors.

West Germany

The very real commitment of the Federal Republic to the market economy has not been regarded in either principle or practice as a bar to an active supply side (ie industrial) policy.

It is regarded as important for a set of principles to be established, and for particular policies to be set within this framework. By contrast, *ad hoc* intervention, such as developed in the late 1950s and early 1960s, is regarded as harmful because of the uncertainty generated and scope for political manoeuvring. Although official macro-economic (but not industrial) forecasts have been made and published since the mid-1960s, West Germany has not experimented with indicative planning. Five-year public expenditure and financial plans have been made since the mid-1960s, however. Although conflicts about particular issues can be sharp, the broad philosophy and framework of policy has achieved a substantial degree of agreement; this has helped to generate stability.

The idea is that supply-side policy should be aimed, as far as possible to make the market work better, not to replace it, and thus should promote flexibility and be temporary. Aid is also acceptable to ease the difficulties caused by sharp declines in the fortunes of particular sectors and to ease social tension. Where there are externalities, however, public sector involvement may be more permanent. It is regarded as important not to diminish the rights and abilities of individual enterprises to respond to the opportunities and constraints of the market.

There are a significant number of publicly-owned enterprises in West Germany, many of them operating in competitive markets. Generally speaking, they are constrained by market pressures rather than by government rules and sponsorship. Employee involvement in individual firms and various employment rights may be regarded as part of the overall social bargain which underpins national economic consensus.

Overall, it seems likely that resources have been concentrated on regional policy, R&D and technology, help to small and medium-sized business, and labour market policies. Although these are all horizontal policies, individual industries receive varying amounts of aid under these policies (R&D and technology policy particularly helped nuclear energy, aerospace and electronics). Some industries, like coal, oil, shipbuilding, have been given special attention.

*See 'Oslo's policy on oil and industry in melting pot', *Financial Times* (page 2), 23 December 1980.

The EEC

Industrial policy within the EEC illustrates well the difficulty of defining boundaries between industrial policy and trade and competition policies. Priority in the EEC throughout its 20 years history has been given to the creation of the common market, and industrial policy has primarily involved the establishment of the ground rules for trading within that market. The role of the Commission has therefore essentially been one of regulation, control and co-ordination.

Emphasis on this relatively passive, regulatory role has from time to time been challenged by those who feel there is need for more positive leadership at a Community level on industrial affairs. They would like to see the Community take the lead in defining policies towards declining industries and high technology industries and take a far more positive regional stance. The only area where so far the Commission has taken such a lead is in dealing with the problems of the steel industry where its powers derive from the Treaty of Paris. Similar 'crisis cartel' policies have been urged but so far resisted in other problem sectors such as synthetic fibres.

The danger in resisting demands for Community leadership lies in the proliferation of independent action on the part of member states. In this respect, the achievements of the Commission should not be minimised. The lead they have taken in limiting and controlling subsidies in, for example, shipbuilding has helped EEC countries (in marked contrast to Norway and Sweden) achieve a progressive and steady reduction in subsidy levels. Equally, given current nationalist attitudes towards advanced technologies, it is uncertain whether any initiative other than the relatively limited co-ordination procedures currently proposed would be likely to receive backing from member states. It is futile to impose upon the Commission a role which it is incapable of fulfilling: at the same time, to resist all pressures for positive leadership may fuel centrifugal tendencies within the Community. The right balance has not been, and will not be, easy to find.

Appendix B
Statistical appendix

Contents

Table 1 Population: millions, averages

	1950–1960	1961–1972	1973–1978
Austria	7.0	7.3	7.5
Belgium	8.9	9.5	9.8
France	43.6	49.2	52.8
West Germany	50.6	59.1	61.7
Italy	48.3	52.5	55.9
Netherlands	10.8	12.5	13.7
Norway	3.4	3.8	4.0
Sweden	7.3	7.8	8.2
UK	**51.3**	**54.6**	**55.9**

Sources: OEDC National Accounts; Labour Force Statistics; Industrial Production—historical series

Table 2 GDP growth: GDP in purchasers values, % pa growth rates

	1950–1960	1961–1972	1973–1980
Austria[a]	6.27	4.91	3.15
Belgium[b]	2.75[e]	4.76	2.19[d]
France[c]	4.34	5.45	3.06[d]
West Germany[dg]	7.54[f]	4.47	2.67
Italy[c]	5.47[f]	5.11	2.69
Netherlands[b]	4.67[f]	5.33	2.50[d]
Norway[b]	3.41	4.24	4.54[d]
Sweden[b]	3.40	4.00	1.43
UK[b]	**2.62**	**2.78**	**1.38**

Source: OECD National Account
[a]1964 relative prices/1975 price levels
[b]1975 prices
[c]1970 relative prices/1975 price levels
[d]1973–1979.
[e]1953–1960.
[f]1951–1960
[g]Saar and West Berlin excluded up to 1960

Table 3 Industrial production: base 1975=100, % pa growth rates

	1950–1960	1961–1972	1973–1980
Austria[a]	7.79	5.92	3.22
Belgium[b]	3.11	4.58	1.24
France	6.06	5.61	2.00
West Germany	9.09	5.21	1.71
Italy	7.98	6.04	2.83
Netherlands	5.45	7.66	1.40
Norway	5.88	5.18	5.51
Sweden[c]	3.64	5.30	−0.30
UK	**3.19**	**2.84**	**0.90**

Sources: OECD National Accounts; Industrial Production—historical series; Main Economic Indicators
[a]Excludes sawmill and film industries
[b]Excludes ore mining
[c]Mining and manufacturing

Table 4 Labour productivity (output per man-hour in manufacturing): base 1967=100, % pa growth rates

	1950–1960	1961–1972	1973–1979
Austria	—	—	—
Belgium	—	7.37	6.25
France	—	5.85	5.01
West Germany	—	5.69	5.25
Italy	—	6.46	3.32
Netherlands	—	7.48	5.43
Norway	—	—	—
Sweden	—	7.34	1.74
UK	**—**	**3.74**	**0.54**

Sources: Statistical Abstract of US; Monthly Labour Review
—not available

Table 5 Unemployment (% of total labour force): averages

	1957–1960	1961–1972	1973–1980
Austria	3.3	1.8	1.7
Belgium	3.2	2.1	6.0
France	1.1	1.8	4.5
West Germany	2.3	1.1	4.4
Italy	5.5	4.4	6.6
Netherlands	1.7	1.2	3.9
Norway	1.4	1.6	1.8
Sweden	1.8	1.8	2.0
UK	**1.7[a]**	**2.4**	**5.1**

Sources: OECD Labour Force Statistics; British Labour Statistics; DoE Gazette
(a)1950–1960

Table 6 Inflation (consumer prices): base 1975=100, % pa growth rates

	1950–1960	1961–1972	1973–1980
Austria	3.33	3.51	5.91
Belgium	1.46[a]	3.52	7.85[b]
France	5.23	4.42	10.11[b]
West Germany	1.86	3.00	4.45
Italy	2.59	3.92	17.05[b]
Netherlands	2.56	4.80	7.42[b]
Norway	3.52	4.67	8.87[b]
Sweden	3.60	4.41	10.39
UK	**3.30**	**4.57**	**15.00**

Source: OECD National Accounts
[a]1953–1960
[b]1973–1979

Table 7 Investment as % GDP: current prices based, average % ratios

	1950–1960	1961–1972	1973–1980
Austria	21.2	26.3	26.2
Belgium	17.8[a]	21.8	21.9[c]
France	19.1[b]	23.0	22.8[c]
West Germany	22.1[b]	25.1	22.0
Italy	20.7[b]	21.1	20.1
Netherlands	22.8[b]	25.2	21.3[c]
Norway	28.6	28.1	32.4[c]
Sweden	20.4	23.2	20.6
UK	**14.8**	**18.1**	**18.7**

Source: OECD National Accounts
[a]1953–1960
[b]1951–1960
[a]1973–1979

Table 8 Share of OECD exports of manufacturers: average % share

	1955–1960	1961–1972	1973–1980
Austria	—	—	—
Belgium[a]	6.0	6.0	6.0
France	8.6	8.8	9.9
West Germany	17.3	19.7	20.9
Italy	3.9	6.8	7.5
Netherlands	3.7	4.4	4.9
Norway	—	—	—
Sweden	2.8	3.3	3.2
UK	**17.9**	**12.8**	**9.0**

Sources: Monthly Review of External Trade Statistics
[a]Belgium and Luxemburg
—not available

Table 9 Balance of payments as % GDP: current prices based, averages

	1950–1960	1961–1972	1973–1980
Austria	1.8	0.1	-2.0[c]
Belgium	1.1[a]	1.0	-0.3
France	0.3[b]	0.2	-0.8
West Germany	2.0[b]	0.6	0.7
Italy	-0.1[b]	1.8	-0.6
Netherlands	2.4[b]	0.2	1.3
Norway	-1.9[b]	-1.9	-7.7[d]
Sweden	0.2	-0.1	-1.8[d]
UK	**0.4**	**0.1**	**-1.4**

Sources: OECD National Accounts; European Economy Annual; Economic Report 80/81
[a]1954–1960
[b]1951–1960
[c]1973–1977
[d]1973–1978

Table 10 Total Government expenditure as % GDP: current prices based, averages

	1950–1960	1961–1972	1973–1978
Austria	31.7	37.6	44.4[c]
Belgium	28.8[a]	34.5	44.7
France	35.5[b]	38.2	42.6
West Germany	28.9[b]	36.7	44.9
Italy	30.1[a]	35.1	42.1
Netherlands	33.5[b]	42.5	53.3
Norway	25.7	36.4	47.7
Sweden	31.0[d]	38.3	51.7
UK	**33.5**	**37.2**	**44.6**

Source: OECD National Accounts
[a]1953–1960
[b]1951–1960
[c]1973–1977
[d]1960 only

Table 11 Transfer Payments as % total Government expenditure: current prices based, averages

	1950–1960	1961–1972	1973–1978
Austria	49.2	50.5	50.8[c]
Belgium	50.3[a]	51.4	55.0
France	53.0	55.2	58.5
West Germany	46.6	46.3	48.0
Italy	45.9[a]	50.5	55.9
Netherlands	46.2	52.3	60.4
Norway	44.9	48.4	54.0
Sweden	34.7[b]	35.4	43.4
UK	**37.1**	**41.4**	**44.6**

Sources: OECD National Accounts
[a]1953–1960
[b]1960 only
[c]1973–1977

Table 12 PSBR as % GDP: averages

	1950–1960	1961–1972	1973–1980
Austria	-2.2	-0.7	1.9[d]
Belgium	2.8[a]	1.6	5.3
France	1.0[b]	-0.4	0.7
West Germany	-4.2[b]	-0.5	2.6
Italy	1.8[b]	2.9	8.9
Netherlands	-1.6[b]	0.8	1.3
Norway	-3.8[b]	-4.0	-3.2[e]
Sweden	2.0[c]	-4.1	-2.5[e]
UK	**0.2**	**0.6**	**3.9**

Note: Positive figures indicates that Government is a net borrower
Sources: European Economy; OECD National Accounts
[a]1958–1960
[b]1951–1960
[c]1960 only
[d]1973–1977
[e]1973–1978

Table 13 Total R&D spending as % GDP: averages

	1950–1960	1961–1972(a)	1973–1980
Austria	—	0.5	—
Belgium	—	1.2	1.3[b]
France	—	1.9	1.8[d]
West Germany	—	1.8	2.1[c]
Italy	—	0.8	0.9[d]
Netherlands	—	2.1	2.0[e]
Norway	—	1.0	1.3[f]
Sweden	—	1.3	1.7[b]
UK	**—**	**2.3**	**2.2[e]**

Sources: OECD Patterns of Resources 63–73; OECD Notes on R&D Graph B
[a]Belgium/France/West Germany: complete 1963–1972. All others, some years missing
[b]1973–1977 less 1974 and 1976
[c]1973–1978
[d]1973–1979
[e]1975 & 1978 only
[f]1974–1977
—not available

Table 14 Government spending on R&D as % total R&D: averages

	1950–1960	1961–1972	1973–1977
Austria	—	—	—
Belgium	—	11.2[c]	12.1
France	—	28.0[d]	23.5
West Germany	—	16.3[a]	16.8
Italy	—	21.2[b]	22.4
Netherlands	—	19.5[e]	20.6
Norway	—	20.2[f]	20.1[g]
Sweden	—	—	9.7[h]
UK	**—**	**25.9[a]**	**24.0[i]**

Sources: OECD International Surveys (devoted to R&D); country tables
Years covered (some missing)
[a]1964–1972
[b]1963–1972
[c]1963–1971
[d]1968–1972
[e]1969–1972
[f]1970–1972
[g]1974–1978
[h]1973–1975
[i]1975 & 1978 only
—not available

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CHANCELLOR OF THE EXCHEQUER

Peter

Chancellor

I understand that the Chancellor asked the CST to report on the PM's reception for industrialists last Thursday. This is it.

Dave

Ta v.m

CONFIDENTIAL

FROM: M V HAWTIN
DATE 17 JUNE 1982

CHANCELLOR

cc. Chief Secretary
Financial Secretary
Minister of State (C)
Sir D Wass
Sir K Couzens
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Mr Beastall
Mr Adams

OD(82)52: PAKISTAN - ECGD SECTION 2 COVER: SALE OF FRIGATES

This paper by the Secretary of State for Trade proposes that a special reservation of ECGD cover under their Section 2 (national interest) account should be made available to provide credit terms for the supply of two frigates for Pakistan. The existing Section 2 market limit for Pakistan is £60 million, of which some £27 million is not yet committed. On the basis of credit for 50% of the costs of these frigates, ECGD's exposure on Pakistan would be increased by £83 million; 70% credit would involve additional exposure of £117 million.

2. As paragraph 3 of the paper notes, this proposal was considered by officials in the Treasury-chaired Export Guarantees Committee on 17 March, which concluded that Pakistan could not be regarded as creditworthy for a significant increase in the present ECGD market limit. Paragraph 7 of the paper records the Treasury's position, and attached to this brief is a copy of the Minister of State (C)'s letter of 17 May, written in reply to letters from the Ministers of State for Industry and for Defence Procurement annexed to the paper.

3. The paper itself clearly sets out the main considerations in this case. It is of course the intention that for business on ECGD's Section 2 account, national interest considerations (of foreign and defence policy, trade, employment etc) should be weighed against the greater risks involved. But we do not see this as a marginal case; indeed, we believe the balance of argument which emerges from the paper is strongly against agreeing cover, and a decision to proceed by giving a specific Ministerial instruction to ECGD (paragraph 20 of the paper) would be a blow to efforts to maintain the financial viability of ECGD's insurance operations.

Unusually, we understand that officials of both Lord Cockfield's Departments, ECGD and Department of Trade, advised against cover for these frigates - DOT because of their concern that this substantial commitment would crowd out the potential civil business mentioned in paragraph 4 of the paper.

Points to Make

4. You may like to draw on the following arguments against Lord Cockfield's proposal:-

i. Pakistan is simply not creditworthy for the sums in question (which involve more than doubling the present £60 million limit). She is heavily aid dependent and runs a large current account deficit. There is a real danger of rescheduling (as paragraph 6 of the paper notes, official aid is already being rescheduled). The prospects that Pakistan could ever pay for these ships must be very doubtful; the deal would really represent aid thinly disguised as trade.

ii. It is arguably irresponsible to press this deal on Pakistan on credit terms which she cannot afford. If this led to Pakistani default, the implications would range much wider than this particular contract.

iii. There is no firm evidence that other countries are prepared to offer credit for this deal (paragraph 8 of the paper). It may be that there is a French offer on an aid basis which we cannot follow, because we do not give such military aid. But this is not an argument for manipulating the criteria for ECGD cover, and effectively accepting a high risk of a large unprogrammed charge on the Exchequer.

iv. On the industrial and employment considerations, there is considerable over-capacity in warship building yards generally, and the future of the Vosper's yard concerned depends on securing a continuing stream of export orders which are unlikely to materialise. The effect of securing this order might simply be to delay closure for a year or two at very heavy potential cost to the Exchequer.

v. Giving credit for these frigates will block possible cover for other sales to Pakistan, much of which would mean work in areas of higher unemployment than Southampton and which, being civil capital projects, offer the prospect of improving the Pakistan economy, and hence her ability to pay off her debts. Given the serious objections to any increase in the present £60 million market limit, there is no case for Lord Cockfield's proposal that a special reservation of cover should be made for the frigates, leaving the unutilised balance of the £60 million available for other projects.

vi. The political considerations are complex (paragraphs 14-17). But the deal could give rise to difficulties in our relations with India, where there is a large amount of trade at stake with much more significant employment implications.

Fallback Position

5. The Secretary of State's proposal will receive strong support from Defence and Industry Ministers; as the paper indicates, Foreign Office Ministers are likely to take a neutral line. If it is not possible to secure a decision against this proposal, we recommend that your fallback position should be to agree to 50% credit, as Lord Cockfield proposes, on normal ECGD terms for warships (ie. current Consensus interest rates, 5 year credit length), but on the understanding that, in order to minimise the increase in ECGD's exposure, this cover must be a charge on the uncommitted balance of the present £60 million limit (ie. not accepting Lord Cockfield's proposal that a special reservation for the frigates should be made outside the present limit.) This would take ECGD's exposure on Pakistan to £116 million (ie. £33 million already committed plus £83 million for the frigates). The implication would be that ECGD would be unable to accept any other business on Pakistan until the outcome on the frigates was known. Given the low creditworthiness of Pakistan, sponsor Ministers should be pressed to accept that a choice has to be made, and that the price of a decision to support the frigates must be a blocking of cover for other potential business.

M V HAWTIN

Economic Secretary
Minister of State (R)
Sir D Wass
Sir K Couzens
Mr Littler
Mr Hansford
Mr Shiv...
Mr Hal...
Mr Barry

MINISTER OF STATE TREASURY

H M Treasury, Old Admiralty Building, Whitehall, London SW1A 2AZ

Telephone 01-273 } 5563
GTN 273 }

Peter Rees Esq QC MP
Minister for Trade
Department of Trade
1 Victoria Street
LONDON SW1

M. Adams.

17 May 1982

PA

Dear Peter,

FRIGATES FOR PAKISTAN - ECGD CREDIT COVER

I have seen copies of Norman Lamont's letter to you of 7 May and Tom Trenchard's of 14 May urging that ECGD cover should be given for credit for the sale of three frigates to Pakistan.

If credit were given for this sale, our exposure on this market would be two or three times greater than the amount which a prudential assessment of the market could justify. This would rule out the possibility of credit for any other business in this market for the foreseeable future. Pakistan is heavily dependent on aid and was only able to avoid rescheduling its debts last year because it was given aid, and this at a time when good weather was favouring agricultural production and workers' remittances were high. None of these favourable factors can be relied upon to continue.

I recognise the industrial benefits for Vosper's Woolston yard but in my view the risks in giving credit are too great. The long term future of the yard is dependent on export orders and we must be wary of paying too high a price now to secure such orders. The employment gains of securing other business which would be pre-cluded by credit for these ships could be as great and involve less risk on credit. There would also be better prospects of foreign exchange earnings to help repay borrowing. I think we would be well advised not to offer these frigates to Pakistan on credit terms which she certainly cannot afford.

I am copying this to Norman Lamont, Tom Trenchard, Cranley Onslow and Leon Brittan.

Yours ever

Barney

BARNEY HAYHOE

CONFIDENTIAL

FROM: J F SLATER
DATE: 21 June 1982

1. MR CAREY
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir K Couzens
Sir W Ryrie
Mr Quinlan
Mr Littler
Mr P Dixon
Mrs Hedley-Miller
Mr Lavelle
Mr Kemp
Mr Ridley

THE GATT MINISTERIAL MEETING

In his letter of 17 June to the Foreign Secretary Lord Cockfield asks for his colleagues' agreement to proposals for dealing with the preliminary stages of this Meeting.

2. Very little of importance can or will happen at Geneva in the Autumn. The main thing is to avoid disillusion and discord. The Sixth UNCTAD will be held six months later, and it is desirable to keep the developing countries in a state of reasonable contentment.

3. One of the most difficult but most important and perhaps most promising areas to make progress is on safeguards against disruptive effects of international trade, safeguards which nonetheless preserve as much freedom of exchanges as possible. If efforts here are wrecked or found to be largely abortive the results could be quite serious.

4. The Department of Trade believe that the contentment of the developing countries can best be bought by expanding the GATT Secretariat's technical assistance. We are promised that this need only cost a "few hundred thousand pounds per annum", and are told that there will be further discussion with Treasury about this.

5. It is disappointing, but inevitable in the circumstances, that the meeting will not provide an opportunity for coaxing or belabouring the Japanese further towards a more balanced economic

286/6

relationship with the rest of the developed world. And there are problems in that the United States is likely to be pushing certain of their own special interests of no particular or overriding concern to us.

6. I recommend that you should agree to Lord Cockfield's proposed approach to this Meeting. A draft letter is attached.

J F SLATER

Pl. type.

CONFIDENTIAL

DRAFT LETTER TO:

Lord Cockfield
Secretary of State for Trade

Copied to: Prime Minister
Members of OD(E)
Sir Robert Armstrong

l.c.

THE GATT MINISTERIAL MEETING

Thank you for sending me a copy of your letter to Francis Pym of 17 June ~~on~~ about the ~~above~~.

I am content with the approach which you outline.

Copies of this letter go to the other recipients of yours.

GH.

CONFIDENTIAL

JU425

EXCHEQUER
13 JUL 1982
ACTION Mr Kemp
COPIES TO CST, FST, EST, MST(C) MST(R) Sir D. Wass Mr Burns Sir W. Ryrie Sir K Couzens Sir A. Rawlinson Mr Quinlan Mr Middleton Mr Monck Mr Ridley Mr Dixon. Mr Beastall Mr HP Evans Mr RIB Allen. Mr Ridley Mr French Mr Harris.

to co-ordinate preparation of very early draft reply, please.

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

13 July 1982

Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

Dear Geoffrey,

THE OUTLOOK FOR INDUSTRY

We are to have a discussion in Cabinet on Thursday about the economy, and it may be helpful to you and colleagues to have some advance indication of my views on the outlook for industry.

2 It is already clear that industrial performance has not picked up in the way we expected at the time of the Budget. So far this year neither total output nor manufacturing output has registered any increase on the low levels of the second half of 1981.* Mainly because of the flatness in manufacturing industry, output growth in 1982 is likely to be well below the Budget and MTFS forecast. More recent assessments, notably by the OECD, emphasise the deteriorating prospects for British industry in both home and especially export markets. The latest CBI survey shows no sign of a recovery in output and in certain respects eg export order books, the situation appears to have been worsening over the past few months. This is consistent with reports reaching me that some of the largest companies are considering further cuts in investment and employment.

3 Of course, there are some encouraging features for industry - an improvement in profitability, some recovery in competitiveness and above all the falling rate of inflation. The leading indicators and the forecasters without exception still predict a modest recovery next year.

4 However, the adjectives most commonly used by industrialists to describe their prospects are 'flat' and 'sluggish', and a delayed upturn is the picture that emerges, at best. I am concerned that the delay will have serious consequences for industry and employment. Moreover, any ground lost this year seems unlikely to be made good next year. I am also concerned about the considerable downside risks in the present situation which may delay the upturn even longer; particularly the risk of deteriorating prospects in export markets and our continuing vulnerability to import penetration. The basic cause for concern is that despite recent progress, industry's competitiveness is still 40% worse than 4 years ago.

*though I have just seen that the May figures are a little more encouraging.

5 Against this background we ought to consider seriously what further steps should be taken in the near future, primarily to reduce industry's costs and so improve its competitiveness, thereby enhancing the prospects for more secure jobs. The main objective should be to help UK manufacturers to secure a larger share of both their home and overseas markets.

6 Further reductions in interest rates would be welcome for this purpose. As well as having a significant direct effect on costs - 1% is worth £250m to industry - lower interest rates would also exert downward pressure on the exchange rate which has been responsible for about one quarter of industry's loss of competitiveness since 1979. I understand that interest rates were expected to drift downwards after the Falklands crisis, and I think it is important not to stand in the way of market forces which might help to bring about such a movement, accompanied by a modest depreciation in the effective exchange rate. However, as interest rates and exchange rates are subject to so many external forces, notably in the USA, I see a need for other, and more certain, ways of improving industry's competitive power. ?

7 My own judgement is that a carefully chosen package of measures to assist industry totalling at least £1 billion announced or implemented soon after the recess, would give a useful boost to industry without undue risk to our monetary strategy. I also note that some respectable commentators (eg Sam Brittan) are calling for a bigger stimulation to the economy as a whole. So far as industry is concerned, you will not be surprised that my first priority is a further reduction in the National Insurance Surcharge. The gloomier outlook for industry and employment strengthens the case for phasing out this tax on jobs and exports as quickly as possible. But this year's Budget arrangements mean that the rate will in fact increase from 2% to 2½% next April unless a decision to the contrary is taken by the autumn. Just to maintain the rate at 2% from next April would reduce industry's costs by some £400m in 1983/84 and at the very least an early announcement of this decision would help to raise industry's confidence in the meantime. However, I believe there is a sound case for a full percentage point reduction next April and I would like to urge that upon you. We must also look carefully at the related question of the size of next year's National Insurance Contributions by employers and employees, especially at the combined cash flow effect on industry.

8 Particularly because it would not take effect for 9 months, I do not consider a ½% reduction in the NIS rate would be a sufficient response to the present situation. We also need to take some action that will have a quicker effect. There are several possibilities.

9 A revival of the small engineering firms investment scheme (SEFIS) would make an almost immediate impact. This scheme is a most effective way of encouraging small firms to become more competitive through the acquisition of technologically advanced and

more productive equipment, and it also provides much needed additional orders for the vital machine tool sector. (Over 60% of orders under the scheme have been for British equipment). It has been an outstanding political and industrial success and the fact that the £30m allocated to the scheme was exhausted within a matter of weeks indicates that it has considerable further potential. I therefore recommend that we consider reviving this scheme, after reviewing its scope and coverage, with an allocation of £100m for this purpose.

10 Ending the 4 month deferment in the payment of Regional Development Grants is another measure which would give an immediate financial boost to industry in the Assisted Areas at a once for all cost of £140 million. This proposal was a late casualty in the run-up to this year's budget, and I strongly urge that it should now be implemented. It would also have the incidental but important benefit of saving Departmental manpower. A more modest alternative would be to end the deferment only for small firms employing up to 100, which would reduce the cost to £25 million.

11 More specifically related to our export performance, I would advocate more generous Aid/Trade Provisions under the aid programme. The terms of the international consensus governing officially supported export credit are hardening in ways which are bound to be detrimental to our exporters of heavy capital goods, and we must be ready to face an increasing resort to aid/trade mixtures if we are to gain a fair share of the available business. Such orders tend quickly to be reflected in jobs at home. Certainly I hope we can avoid the extraordinary agonising over marginal concessions of the kind involved in the current Klang Power Station case in Malaysia.

12 Finally, I think we should consider the scope for a stimulus to the civil engineering side of the construction industry. The Budget measures are having a beneficial effect on housing but the rest of the industry is being hit very hard by the recession. As you know, the CBI attach high priority to some help from Government in this quarter where there is very little import penetration. They claim that a quick and widespread effect on activity and employment with a useful spin off to other parts of industry could be achieved by a programme of infrastructure maintenance and repair eg on roads and sewers. So far as roads are concerned, a targeted programme could be helpful in promoting our proposals for implementing the Armitage report on heavy lorries thus reducing industrial transport costs. Altogether there would be direct and indirect benefit for industry here and I should be interested to hear the views of Michael Heseltine and David Howell on whether action on these lines might be feasible.

HP Controls

13 In addition to this package, I should also like to support

the idea of a relaxation of hire purchase controls. The Society of Motor Manufacturers and Traders have recently written to you renewing their request for a relaxation of the controls as they affect motor vehicles and I support their suggestion as a minimum step that we might take. Arthur Cockfield, in his letter of 28 June, has gone further and proposed total abolition of controls. He has put forward good reasons for taking this more radical course and I do not wish to argue against him. However, we do need to be careful that industry is not taken unawares by a major change of this sort with a possibly damaging influx of imports. Although I am in favour of abolition there is therefore something to be said for moving one step at a time.

14 In sum, what I am seeking is an autumn package of measures and announcements which will mitigate the heavy downside risk which now seriously threatens even the very modest growth forecasts following the budget. Measures worth about £1 billion to industry's cash flow ought to be feasible without undue risk to expectations about inflation, and would indeed serve to fend off a further round of cuts in manpower and investment and output which would be highly damaging to our longer term industrial prospects.

15 I am copying this to the Prime Minister and other Members of the Cabinet, to the Chief Whip, and to Sir Robert Armstrong.

Yours ever

Patrick

JU CONFIDENTIAL

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

27. July 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
SW1P 3AG

EXCHEQUER
28 JUL 1982
Mr Kemp

28/7

Dear Geoffrey,

THE OUTLOOK FOR INDUSTRY

In your minute of 14 July commenting on my letter of the previous day you suggested we should meet to talk in more detail about the prospects for the company sector. I would very much welcome that and I hope we can meet soon after the summer break.

Fixed for Tuesday?

Sooner than this
Next week
See separate note
re polit. discussion

Yours ever
Patrick

Chancellor 12/2 PMG

E RC Bottrill
NT Paul Davies
GS

U.K. JUNE TRADE FIGURES POSE DANGER TO MARKETS ECSA
BY STEN STOVALL, REUTERS
LONDON, AUG 6 - ANOTHER SET OF VERY BAD U.K. TRADE NUMBERS NEXT TUESDAY WOULD SHATTER MARKET SENTIMENT, WEAKEN STERLING AND FORCE UP INTEREST RATES, ANALYSTS POLLED BY REUTERS SAID.
THE MEDIAN FORECAST SEES A CURRENT ACCOUNT DEFICIT OF 150 MLN STG IN JUNE - SLIGHTLY BETTER THAN THE CENTRAL EXPECTATION HEARD LAST WEEK OF A 200 MLN STG GAP.
CURRENT ACCOUNT PREDICTIONS RANGE FROM A BREAK-EVEN POSITION TO A DEFICIT OF 300 MLN STG WHILE THOSE FOR VISIBLE TRADE SEE JUNE DEFICITS OF BETWEEN 600 MLN AND 950 MLN STG.

06-AUG-0817 MON202 MONQ ETPQ COAM CSAH CMAA CGAN UKHJ SHNE BONE
MORE

P

DEALING SEE AADA 0926

U.K. JUNE =2 LONDON ECSB
JUNE FORECASTS ASSUME THAT INVISIBLE EARNINGS WILL STAY AT A PROJECTED 600 MLN STG, UNCHANGED FROM MAY AND APRIL.
MOST ECONOMISTS SAID JUNE DATA, DUE 1030 GMT ON AUGUST 11, WERE EXPECTED TO BE BAD BUT NOT AS BAD AS MAY'S PROVISIONAL 561 MLN STG CURRENT ACCOUNT DEFICIT AND 1.16 BILLION VISIBLE TRADE GAP. THESE WERE DELAYED A MONTH DUE TO A CIVIL SERVANTS STRIKE.
"THE QUESTION IS WHETHER THOSE FIGURES WERE AN ABERRATION DUE TO THE STRIKE, OR THE START OF A SHARPLY DETERIORATING TREND," GAVYN DAVIES OF GOLDMAN SACHS TOLD REUTERS.
ECONOMIST DAVID OWEN OF KLEINWORT GRIEVESON BELIEVED THE MAY DEFICITS HAD BEEN AN ABERRATION.
06-AUG-0821 MON208

MORE

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DEALING SEE AADA 0926

U.K. JUNE =3 LONDON ECSC
"WE BELIEVE THE CIVIL SERVANTS, DUE TO THEIR INDUSTRIAL ACTION, UNWITTINGLY MISCALCULATED MAY'S OVERALL FIGURES AND THAT THOSE WILL HAVE BEEN REVISED COME TUESDAY," OWEN SAID. HIS VIEW WAS ECHOED BY MANY ECONOMISTS.
A DEPARTMENT OF TRADE AND INDUSTRY OFFICIAL INSISTED THE STRIKE HAD NOT DISTORTED MAY'S FIGURES. HE ALSO SAID MAY'S FIGURES WERE STILL BEING REGARDED AS A FLUKE BY THE DTI.
OWEN SAID CURRENCY AND GILTS MARKETS SEEM TO HAVE ADJUSTED TO THE POSSIBILITY THAT JUNE'S FIGURES WILL SHOW A CURRENT PAYMENTS SHORTFALL OF SOME 200 MLN STG. HE SAID MARKETS ARE NOW VERY SENSITIVE TO NEGATIVE NEWS ABOUT THE U.K. ECONOMY.
06-AUG-0822 MON209

MORE

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DEALING SEE AADA 0926

U.K. JUNE =4 LONDON ECSD
OWEN SAID "THE WAY PEOPLE SHRUGGED OFF THE RECENT OPTIMISTIC RE.ORT BY THE CONFEDERATION OF BRITISH INDUSTRY SUGGESTS MARKETS ARE LOOKING FOR BAD NEWS. THEY MAY THEREFORE EXAGGERATE THEIR REACTIONS." DAVIES SAID "THE IMPORT SIDE, ESPECIALLY CONSUMER IMPORTS, WILL BE THE THING TO WATCH FOR SIGNS OF OVERHEATING. IF THERE IS SUCH EVIDENCE, THEN MARKETS WILL INDEED TAKE FRIGHT."

THE JUNE FIGURES WILL BE ESPECIALLY WATCHED FOR THEIR IMPACT ON STERLING. "IF THESE ARE SEEN AS BEING BAD, AND STERLING SLUMPS, THEN A RISE IN BASE (INTEREST) RATES WOULD BE NEEDED. EQUITIES AND GILTS WOULD ACT ACCORDINGLY," SAID TIM CONGDON OF SHEARSON LEHMAN BROTHERS.

06-AUG-0824 MON219

MORE

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DEALING SEE AADA 0926

U.K. JUNE =5 LONDON ECSE
STEPHEN LEWIS OF PHILLIPS AND DREW SAID NEGATIVE SENTIMENT MAY BE FANNED BY MONDAY'S RELEASE OF U.K. PRODUCER PRICES FOR JULY, AS THEY ARE EXPECTED TO SHOW STRONG GAINS YEAR-ON-YEAR AND COULD HEIGHTEN INFLATIONARY FEARS AND MAKE OPERATORS EVEN MORE JITTERY AHEAD OF THE NEXT DAY'S JUNE TRADE FIGURES.

GILES KEATING OF CREDIT SUISSE FIRST BOSTON SAID MARKETS ON TUESDAY COULD AGAIN BE SURPRISED, BUT BY POSITIVE NEWS.

"IT SEEMS HIGHLY UNLIKELY THE BANK OF ENGLAND AND TREASURY WOULD HAVE RESISTED RECENT UPWARD PRESSURE ON INTEREST RATES IF A NEW SET OF SHOCKING TRADE FIGURES WAS IN THE OFFING," HE SAID.

06-AUG-0825 MON224

MORE

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DEALING SEE AADA 0926

U.K. JUNE =6 LONDON ECSF
OTHER ANALYSTS SAID THAT U.K. AUTHORITIES USUALLY DO NOT GET CLEAR VIEWS OF TRADE FIGURES UNTIL VERY NEAR THEIR RELEASE DATE.

HOWARD CARTER OF PRUDENTIAL BACHE SAID "A GOOD NUMBER WOULD BE A CURRENT ACCOUNT SURPLUS OF 100 MLN, WHILE A NEUTRAL NUMBER WOULD BE BALANCE TO A 150 MLN STG SHORTFALL. ANYTHING BELOW THAT WOULD BE NEGATIVE AND CONFIRM CURRENT SENTIMENT."

LLOYDS BANK CHIEF ECONOMIST ROGER BOOTLE SAID THAT "GIVEN THE RANGE OF FORECASTS, ANYTHING UP TO A 300 MLN STG CURRENT ACCOUNT DEFICIT OUGHT TO BE ACCEPTABLE. IF IT IS HIGHER, THEN THE AUTHORITIES WILL BE FORCED TO ACKNOWLEDGE THE ECONOMY RISKS OVERHEATING AND MAKE ADJUSTMENTS TO MONETARY POLICY."

06-AUG-0826 MON227

MORE

P

DEALING SEE AADA 0926

U.K. JUNE =7 LONDON ECSG

BRIAN PEARCE OF CHASE MANHATTAN SAID "THE MAY FIGURES WERE ESPECIALLY NOTABLE FOR THE 10 PCT RISE IN NON-OIL IMPORT VOLUMES, WHICH WERE EXCEPTIONALLY LARGE."

HE SAID U.K. OIL OUTPUT IN JUNE IS THOUGHT TO BE DOWN CONSIDERABLY. "THAT SHOULD TRANSLATE INTO A FALL IN OIL EXPORT VOLUME, AND THEREFORE A LOWER SURPLUS ON OIL TRADE."

BRITAIN'S CURRENT PAYMENTS ACCOUNT FOR 1987'S FIRST FIVE MONTHS HAS BEEN IN ROUGH BALANCE, ECONOMISTS SAID.

THEY NOTED THAT IMPORTS HAD BEEN VERY SUBDUED IN 1987'S FIRST FOUR MONTHS. BUT MOST SAID THEY BELIEVED THAT PATTERN WAS UNLIKELY TO BE SUSTAINED FOR THE REMAINDER OF THE YEAR.

06-AUG-0827 MON228

MORE

P

DEALING SEE AADA 0926

U.K. JUNE =8 LONDON ECSH

ECONOMISTS NOTED THAT FORECASTS FOR MAY'S CURRENT ACCOUNT NUMBER HAD PROVED WAY OFF MARK, WITH MOST RANGING FROM A BREAK-EVEN POSITION TO A SURPLUS OF 150 MLN STG. EQUALLY WRONG VISIBLE TRADE PREDICTIONS SPANNED FROM A DEFICIT OF AROUND 450 MLN TO 600 MLN STG.

"FORECASTING TRADE FIGURES IS A VERY DUBIOUS BUSINESS INDEED," COMMENTED TIM CONGDON.

"FRANKLY, ANYONE WHO THINKS THEY CAN GUESSTIMATE U.K. TRADE FIGURES ACCURATELY IS JUST WHISTLING IN THE DARK," HE SAID.

06-AUG-0828 MON231

REUTER

P

DEALING SEE AADA 0926

FROM: E P KEMP
22 September 1982

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir Douglas Wass
Mr Burns
Sir Anthony Rawlinson
Mr Middleton
Mr Quinlan
Mr Cassell
Mr Evans
Mr Lovell
Mr Monger
Mr Moore
Mr Mountfield
Mr Allen
Mr Chivers
Mr Gordon
Mr Traynor
Mr Norgrove
Mr Harris

MEETING WITH SECRETARY OF STATE FOR INDUSTRY - 23 SEPTEMBER

You are meeting the Secretary of State for Industry at 10 30 on Thursday. The papers for the meeting are the exchange of correspondence you had with Mr Jenkin under the heading "the outlook for industry" just before the public expenditure/macro economic Cabinet on 15 July - that is, Mr Jenkin's letter to you of 13 July and your reply of 14 July. Thursday's meeting follows Mr Jenkin's public expenditure bilateral with the Chief Secretary of yesterday; he may want to follow up one or two points and a note on this is among the bundle below (Note N). But primarily you are to discuss the earlier correspondence.

2. In his letter of 13 July, Mr Jenkin outlined what he saw as the rather dismal prospect for industry, and said that what he wanted was an Autumn package of measures and announcements - he specified his ideas - worth about £1 billion to industry's cash flow. In his view, he said, this ought to be feasible without undue risk to expectations about inflation. In your reply of 14 July you said, in effect, that it was too soon at that time to be considering this sort of package, and that the sort of measures Mr Jenkin proposed would more suitably come up in the context of the Autumn announcements. He went on to refer to the need to avoid

having to raise taxes or interest rates, and the dangers that could be involved in misjudged letting up; and you hinted that there were other priorities besides direct action to help industry, notably the desirability of doing something on personal tax and in the Why Work, poverty and unemployment trap areas.

3. Notes on the various specific points that may come up during the meeting are attached. The briefs have of course been prepared without benefit of the latest forecast which is now being worked up. The brief on the prospects for the company sector in particular is now looking dated.

4. This is, of course, essentially a "listening" meeting - what Mr Jenkin is really doing is coming up with the first of next year's Budget representations. You may like to ask him to speak first. No doubt he will to some degree repeat what he said in his letter of 13 July, and of course emphasise that if anything the situation has deteriorated since then. He will no doubt refer to the CBI views as put forward in the well publicised exchanges during the Summer.

5. In reply you may like to take the following sort of line :-

a. In terms of timing it is still too early to take any firm decisions as to next year, whether these are to be announced in the Autumn or at the time of the next Budget. We still have the Autumn forecast to come, and as Mr Jenkin well knows the public expenditure exercise is by no means completed. But it is useful to have Mr Jenkin's views now, and of course what he says has been taken into account.

b. The points Mr Jenkin makes about the economy are very much in mind. Output has performed less well than expected at the time of the Budget. We shall need to look at the coming forecast for a fuller picture of how far this is likely to continue. Unemployment

clearly remains serious. On the other hand inflation is coming down far faster than expected, and interest rates too have fallen.

c. [If you wish to be open with Mr Jenkin]. The forecast will also be the basis for further consideration of the fiscal and monetary prospects. Taken together with the upshot of the public expenditure round this will lead to an assessment of options for the Autumn Statement, and on to the Budget. At this stage we have no sound basis for taking a view either on the scope and need for action within the terms of the figures for the PSBR (and money) paths announced in March, or, more fundamentally, on whether those figures themselves could be or need to be revised. Account will have to be taken of all the elements involved, including the need to hold down borrowing to help with interest rates (one of Mr Jenkin's priorities) and also the need not to take risks with inflation and the exchange rate.

d. It is thus not clear at present how much (if any) scope for fiscal relaxation there will be at the time of the Budget. As Mr Jenkin will know the last MTFS showed a positive "fiscal adjustment" - scope for tax reductions over and above revalorisation of income tax thresholds and excise duties - of £½ billion. Much will have changed since then and it is simply not possible now to make any prediction, nor to say whether Mr Jenkin's £1 billion could be found within current monetary and fiscal policy. [It was not clear from his letter whether Mr Jenkin thought his £1 billion would come within the planned PSBR - ie there would be a positive fiscal adjustment of at least this amount - or whether he was hinting at raising the 1983-84 planned PSBR by £1 billion. We assume the former].

e. But even if there turns out to be a useful size positive fiscal adjustment, there are many other claimants besides industry, You can say that you are well aware of the problems of company financing and of the desirability of helping the recovery through a reduction in industry's costs. This point has been put forcibly by many others, including the CBI and the ABCC. But of course there are other priorities too. As you said in your letter of 14 July, the Government's record on personal tax is not good and the problems of Why Work, the unemployment and poverty traps, and so on are very real. You might like to remind Mr Jenkin that at the meeting of the Family Policy Group at No 10 on 10 September (at which he was present) it was apparently said that action in this area should take priority over everything else, including a reduction in the National Insurance Surcharge.

?

[?]

f. You might like to note that, without suggesting that industry's problems are not serious, they are already reaping the benefit of the reduction in the NIS announced in the last Budget, and of the recent falls in interest rates. The best and most direct ways for companies to keep their costs down lie in their own hands, through making the most of the spectacular fall in inflation, through keeping up the recent improvements in productivity, and above all through exercising restraints on pay and not giving in to unjustified demands.

g. You expect that accompanying a paper by the Chief Secretary on public expenditure, you would put a paper to Cabinet on 28 October [or possibly 4 November] discussing the macro economic situation and some of the options which seem to be emerging. Obviously you will take account of what Mr Jenkin says. As an aside you might like to add that you are not greatly enamoured of "packages", "mini-Budget", and the like.

h. Finally you may like to ask Mr Jenkin how, if there were any scope for fiscal relaxation, he would actually rank priorities amongst the ideas he has for action.

Where next?

6. This brief suggests that the meeting with Mr Jenkin should thus be a holding and listening one, though Mr Jenkin is of course an old and trusted colleague with whom you may be prepared to speak pretty frankly. But there are going to be some very difficult decisions to be taken over the next couple of months in the light principally of the Autumn forecast and how the public expenditure round goes. And there are also, clearly, outside pressures for Autumn action or at least an Autumn announcement. The question will be how far, if at all, you will want to go beyond unsurprising Autumn announcements (essentially outline public expenditure plans and National Insurance Contribution changes plus the Autumn IAF forecast and the ready reckoners etc we promised the TCSC would be in the Autumn Statement); and whether, if there are to be surprises, these are in the Autumn Statement or separated from it. One very obvious candidate is an announcement of a consolidation of the temporary ½ per cent NIS reduction, the timing of which is discussed at Annex G below. Some other, wider, considerations were set out in Sir Douglas Wass' minute to the Chief Secretary on "holiday thinking" of 1 September.

7. A full timetable is in preparation. Immediately you may like to glance at the outline at Annex O below. The Autumn forecast is due to come to you during the week ended 8 October. A note discussing the PSBR path for 1983-84 and a note setting out some ideas for tax and other options, and possible priorities, rather on the lines suggested in paragraph 5 of Mr Middleton's minute to you of 17 September, will follow. In the light of these, and having regard to how the public expenditure round is going (and to indications emerging from the National Insurance Contribution review exercise) it will be possible to start evolving thoughts for the Autumn and then on to the Budget, thoughts to be reflected in the papers for Cabinet at the end of October.

EPK

E P KEMP

MEETING WITH MR JENKIN - 23 SEPTEMBER 1982 - BRIEFING NOTES

A	Economic prospects
B	Company Sector prospects
C	Aide-memoire on UK Economy
D	Bull points
E	Unemployment
F	Interest rates and removal of HP controls
G	NIS and NIC (including NIS announcement timing)
H	SEFIS
I	Deferment of Regional Development Grants
J	Aid/Trade
K	Industrial rates
L	Tax relief for small businesses
M	Civil Engineering
N	Residual points from Tuesday's bilateral
O	Key timetable points to the Budget

CHANCELLOR OF THE EXCHEQUER

C/

This is a horrifyingly large bundle of papers but fortunately by no means all of it is required reading for tomorrow's meeting with Mr Jenkin. Rather, Central Unit have taken this as an opportunity to bring you up to date with developments on a number of fronts.

You may like to glance in particular at brief N – the issues outstanding from the CST's bilateral with Mr Jenkin. Since Mr Kemp wrote his minute, we have had a copy of the minutes of the first part of that meeting which are flagged below. However, we assume you will not want to be drawn on any of these items but will prefer to leave them to be dealt with subsequently by the CST. MOM 22/9

JF1951

EXCHEQUER
- 9 NOV 1982
CST

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PRIME MINISTER

INDIA : ORISSA STEEL PLANT

I have seen Arthur Cockfield's minute to you of 2 November and Leon Brittan's of 3 November. I should like to add my support to the proposals put forward for securing this potentially large amount of business for a number of British manufacturers spanning a broad area of industry. The additional work will be very welcome. Indeed for some of the companies concerned, foreign contracts now offer the only sales prospect, given the lack of home orders from BSC. The added value of these hardware exports will be particularly high since there will be relatively little imported content.

2 I support the proposal that we should aim to secure the maximum business and to do this I also accept, like Leon Brittan, that we shall have to offer a realistic financial package. I leave it to others closer to the problem to judge the exact level of our opening bid. I should have thought myself that the Indians, who are very shrewd negotiators, will have a very clear idea, especially in view of the earlier negotiations, how much business they are prepared to place with us and how much aid is appropriate. I can see merit therefore in making a realistic opening offer linked to the total package, making it plain that

it would be scaled down for anything less than the £650m. This would be better than opening too low and finding ourselves forced to quickly raise the bid to something closer to what we are prepared to give.

3 I accept that if we were to get this package there would be problems of ECGD Section 2 cover for future commercial business. I would hope, however, that the limit for India, which has an excellent record and good prospects, could be reviewed if it should threaten to inhibit good commercial prospects.

4 I am copying this to the members of EX and to Neil Marten.

PJ

P J

9 November 1982

Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

PMP

EXCHEQUER
- 2 DEC 1982
CST

CONFIDENTIAL

From the Secretary of State

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SWI

30 November 1982

Dear Leon,

INDIA: ORISSA STEEL PROJECT

I am grateful to colleagues for reacting swiftly to the proposals in my minute of 2 November. The High Commissioner has now submitted the list of preferred UK packages to the Indian Ministry of Steel and their reactions are awaited. No indication has yet been given to the Indians of the amounts of aid which might be associated with our bid.

However, once the Indians do react we will probably get drawn quickly into discussion of the financial support for the project. I am as concerned as you are to provide the minimum aid necessary to secure substantial UK participation, but the tactics of how we deploy what we are prepared to give must, in my view, depend on how the Indians respond to our proposals. I must therefore take issue with your view that our initial offer should necessarily be less than £100m. The level of UK supply in the packages we have proposed to them is broadly similar to the final Davy bid. The Indians have made it clear that they would expect any new financial package to be broadly comparable with that previously available. You will recall that originally £100m of special aid was offered in support of Davy's bid which was later increased to £120m. I believe therefore that if we were to offer the Indians only £80m of aid in support of a UK package of this size there is a very real danger that our offer might be rejected immediately. The High Commissioner shares this view. We would then need to offer the larger sum with nothing gained but damage to our negotiating credibility. This is not a risk we should be prepared to take especially as the Russians, Germans and Japanese are already pressing their claims with the Indians for participation in this project.

From the Secretary of State

I of course agree that the amount of aid should be reconsidered if the amount of business offered to the UK is less than the proposed £650m. Indeed, in these circumstances and particularly if some of the more industrially important packages are removed, it could well be appropriate to reduce our initial offer more than proportionately. But these are tactics which can only be judged when we have the Indian response. I would meanwhile be grateful if you could for the reasons I have explained reconsider your view that less than £100m should be offered for the full £650m package.

I am copying this to the Prime Minister, the other members of EX and to Neil Marten.

Yours ever,

LORD COCKFIELD

CONFIDENTIAL

(PWN)

C

FROM: ROBIN HARRIS
DATE: 15 December 1982

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State (C)
Minister of State (R)
Sir D Wass
Sir A Rawlinson
Mr Burns
Mr Middleton
Mr Kemp
Mr Hall
Mr Ridley
Mr French

NOTE OF A MEETING OF THE CONSERVATIVE PARLIAMENTARY INDUSTRY COMMITTEE: TUESDAY 14 DECEMBER 1982

The meeting was addressed by the Chancellor of the Exchequer.

The Chancellor said that the UK economic outlook was less favourable than might have been hoped. However, the UK forecast rate of economic growth in 1983-84 was, in fact, one of the most optimistic in Europe. The constraint was the world recession. There was a need to tackle the effects of past over-borrowing. For this, the IMF needed to have sufficient resources to help the process of transition. There was also a need to try to ensure a return to growth in the US. However, the problems of US deficits and interest rates in the final analysis had to be solved in the US.

In Britain we had suffered from accumulated shortcomings. However, it was good that inflation was now lower than for ten years. There was no need to revise the forecast of 5 per cent inflation next year. We had to continue reducing business costs. It was encouraging that unit wage costs had only risen by some 5 per cent over the last year. Lower interest rates were helping too. They were down 6 per cent on last October. However, it was impossible to avoid international pressures and the continuing need for a firm policy on monetary growth and so it was impossible to assure permanent protection against any rise in the rates. Government

was doing what it could to keep costs down. NIS had been cut. Energy prices had been held down. Local authorities and nationalised industries were being encouraged to spend on capital investment. It was, though necessary to keep on controlling inflation and keep a firm control on aggregate public expenditure, while ensuring a better balance between capital and current.

It was also important to continue pressing for lower pay settlements, especially in the public sector. Planning controls were still in his personal view inhibiting enterprise. Government and industry together should work to ensure more competitive supply. Lack of demand was not the problem. There would be a growth in real demand this calendar year of 3 per cent and 3 per cent next year too. What we had to ensure was that this demand was met by British firms. Import penetration in the domestic market had to be reversed.

Government must do what it could to help industry, but without risking progress on inflation and interest rates.

Mr K Carlisle said that engineering companies in Lincoln had found a worrying fall off in orders recently. It was important that they should be reassured that public sector costs would not increase. The Chancellor agreed. Pay, particularly public sector pay, was important too. There were encouraging initial signs of pay moderation in this round.

Mr Peyton said that in future Treasury forecasts should be more closely reconciled with industrial reality. Industry needed lower energy costs, comparable to those of other countries. The Chancellor agreed that forecasts must always be realistic. However, he pointed out that the CBI and Treasury alike had been more optimistic early in the year and that the Government forecast was broadly in line with outside forecasts for next year too. On the matter of energy costs, the NEDC had looked at this exhaustively. There was general agreement that average industrial users were not much penalised in the UK. However, the energy intensive industries were a problem. Yet everyone should remember that the revenue required for subsidies to keep down energy costs needed to come from somewhere. The French advantage through hydro-electric power

could not be matched. Moreover, the failings of the British nuclear programme were past history. So access to cheaper energy was limited. However, individual cases would continue to be scrutinised.

Sir A Costain asked about the involvement of Lloyds in the proposed loan to the Argentine. The Chancellor said that Latin America provided vital markets for the UK. Therefore, we had an interest in the economic health of Mexico, Brazil and the Argentine. It was impossible to dictate the details of defence spending programmes of countries which sought loans from the IMF. The IMF was a financial not a political institution. That was the context in which one should consider the participation of Lloyds.

In answer to Mr B Henderson, the Chancellor said that the fall in oil prices did mean that world economic prospects were not as gloomy as they might otherwise have been. However, lower oil prices did not remove the continuing problems arising from the US deficit and from the difficulties of LDCs.

In answer to Mr Trotter, the Chancellor said that the most important contribution which Government could make to the health of industry was to continue controlling inflation and public expenditure and so allow interest rates to be lower. Sectoral and other direct assistance could only be effective at the margin. International stability was of great importance too. Further consideration had been given to the issues posed by international tax avoidance. When new proposals were made these would be shown to be more sensitive than the original version. It was important to grasp the scale of the problem. Anti-avoidance measures introduced over the last three years had saved £1 billion this year.

Mr Gardiner asked for the Chancellor's comments on the Institute of Directors' analysis which showed that business expenditure was more import intensive than expenditure by individuals. The Chancellor said that he had called for a full appraisal of ~~Mr~~ Mr Goldsmith's speech. His preliminary view was that there was probably not much difference between companies and people in this regard. However, no one should doubt that growing import penetra-

tion was a problem.

Mr Maxwell-Hyslop said that some energy intensive industries had virtually ceased to exist altogether, such as papermaking. The shipping industry was likely to suffer the same fate. Indonesia had said that all imports and exports should be carried in Indonesian ships. He was deeply sceptical of the arguments about the need to help Argentina with its financial problems. This would be very electorally unpopular. The Chancellor said that there was nothing theoretical in the views he had been putting forward. He understood the political sensitivities of loans for the Argentine. The US had done great damage to their banking system during the Iranian crisis because of ill-judged and excessive measures. Invisibles were of great importance for Britain. The interests of our banking sector could not be ignored.

Mr Bulmer said that there was a need for more people with experience of manufacturing to enter the senior ranks of the Treasury. The recent decisions about North Sea taxation showed how damaging the lack of industrial experience among those dealing with these matters in the Treasury could be. The Chancellor said that his last budget had paid special attention to the needs of particular manufacturing sectors. He instanced the measures for teletext and avgas. He was also in regular contact with the chairmen of Sector Working Parties. It was not the function of Government to contract out its affairs to the TUC or the CBI. However it was vital that they should understand the Government's economic case. And conversely it was important that Government should continue to listen to their suggestions for improving the industrial environment. He added that any colleagues who had particular fiscal propositions dealing with industry should put them to him.

In answer to Mrs Faith, the Chancellor said that where subsidies for employment were provided it was important they they should be seen to contribute to industrial efficiency rather than derogate from it.

In answer to Mr C Morrison, the Chancellor said that there were examples of British firms scoring considerable successes in spite of difficult conditions. He gave as examples Racal, Plessey, Jaguar. NEDC studies suggested that poor marketing performance had held back many industries. There was much to be done in improving this.

In answer to Sir J Ridsdale, the Chancellor said that he did not want a new Bretton Woods. But he did want more international stability. There was now more co-operation between the five key currencies and the IMF. And the Japanese yen and the US dollar were at last moving in the right directions.

In answer to Mr Budgen, the Chancellor said that he was not at all attracted by a wage freeze. He had himself administered one and had no inclination to repeat the experience.

Mr M MacMillan said that he had found the Treasury sympathetic to industrial problems but not the Inland Revenue. The Chancellor emphasised that policy decisions were made by Ministers, though clearly they could not intervene in particular cases. The whole range of possible measures to help stimulate business activity was under continuous scrutiny.

Mr H Millar said that more attention should be given to the question of implementing sectoral rather than regional aid. He said that the West Midlands had lost out through regional aid. However, he did not want any more enterprise zones. The Chancellor said that the difficulties of changing the regional aid map were enormous. The West Midlands had in fact done well out of aid to the motor car industry. Enterprise zones were valuable. There was bound to be friction at the frontiers. But enterprise zones could focus activity on previous areas of dereliction, such as in the Swansea Valley and Clydebank. Mr Grylls supported enterprise zones.

Mr Watson said that the fact that interest rates had fallen in the US contrary to what had been predicted by those concerned with the size of the US deficit suggested that interest rates in general reflected the level of inflation not the level of Government borrowing. However, the Chancellor said that the two were closely

connected. Large deficits meant that people became concerned that inflation would rise. Moreover, the US had a very low savings ratio. Few in responsible positions in the US seriously argued that the deficit was not a problem. Their difficulty was in finding acceptable ways of reducing it.

RH

ROBIN HARRIS
15 December 1982

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pup

EXCHEQUER
30 DEC 1982

CST dealing

DEPARTMENT OF TRADE
1 VICTORIA STREET
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SWITCHBOARD 01 215 7877

From the
Minister for Trade

Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
Whitehall
London SW1

24th December 1982

Dear Chief Secretary,

PHILIPPINES: ILIGAN INTEGRATED STEEL PROJECT - DAVY McKEE

Since EX approved ATP assistance of £27M for the iron-making phase of this project, Lurgi of West Germany have very substantially reduced their price by switching to virtually total Japanese sourcing, in partnership with Hitachi. Despite further major price reductions by Davy, and an indication in principle of HMG aid, we have been told by the responsible Filipino Minister, Roberto Ongpin, that Davy will definitely not be awarded the iron-making stage. It is clear that Lurgi are determined at all costs to preserve their position on direct reduction iron-making technology and have put in a cut throat price in order to do so.

However, Minister Ongpin has said that he would still welcome UK participation in the project and has now issued letters confirming an exclusive negotiating position for Davy on the second phase of the project for the steel making plant, subject to ATP aid as proposed below being offered by 15 January 1983. Although the loss of the direct reduction iron plant as an important reference for UK technology is disappointing, the benefits from Davy's being awarded the contract for the steel plant are equally attractive and would involve a slightly lower expenditure of ATP funds and virtually the same subsidy element as was the case on the iron plant. On the basis set out in this letter, I therefore hope that you and other colleagues, to whom I am copying this letter, will agree to aid being given for the steel plant instead. As we have only until the middle of January to make a formal offer, I should be grateful for your agreement by 7 January.

Steel Making Plant

The steel plant will have a capacity of 1.4M tonnes a year and will be fed by iron from the direct reduction iron-making plant. The steel plant will consistessentially

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of three 200M tonne electric arc furnaces and ancillaries together with associated utilities. The likely total costs are as follows:

	£m
UK content	118.4
3rd country content of UK supply	5.7
Austrian content	31.0
Locals	60.9
Total	216.0

It is envisaged that there would be three separate contracts. One for the electric arc furnace package (UK value £74.5M) on which it is proposed an ATP grant of £22.9M would be given; a contract for the related utilities (oxygen plant, substation etc) which would not be supported by ATP (UK value £41.7M); and a contract for training of £2.2M which it is proposed would be funded 100% from the ATP. In addition Davy may also secure a contract for a billet shop (UK content estimated at £10M) on an unaided basis.

Economic Benefit to the UK

There are several features of the steel plant which would make it as valuable a reference for the UK as the iron plant. The electric arc furnace shop would be by far the largest ever built by a UK company (twice the size of the previous largest). In addition the furnaces will be charged with the iron from the direct reduction plant using special materials handling techniques which have not been adopted on any previous British furnace, and nowhere on this scale. Electric arc furnace steel-making is an essential adjunct of direct reduction iron-making as well as the route to making steel from scrap. It is therefore, very much the steel making technology of the future. Moreover the UK would be getting a better gearing in terms of unaided content on this phase of the project than on the iron plant.

The employment effects of the project are broadly comparable with those on the iron plant. The contract would provide 18,500 man years of work in total of which some 18,000 would go to subcontractors in the heavy engineering, electrical and fabrication sectors many of which are located in the North East.

Developmental

ODA economists have already assessed the project as a whole in connection with the iron plant proposals and have pronounced the project viable and developmentally sound.

Anglo-Japanese collaboration

Unlike the iron making proposal, there is no significant Japanese content in Davy's steel making bid; the main foreign partner is the Austrian Voest-Alpine Company. However, Davy's Japanese partners on the iron-making bid, C Itoh, are to retain a nominal participation in this package.

ECGD

ECGD terms would be the same as those on the iron plant, namely cover for some local costs and third country items, and support for capitalization of interest at market interest rates. These are essential elements of the financial package. Exposure for ECGD is now somewhat less than for the iron plant, which, you will recall, was well within the Section 2 limit for the Philippines, and was discussed in some detail, I understand, at EX.

Reason for Aid

As Lurgi's offer on the iron plant was, in the end, more attractive than the UK's even taking into account aid, Ongpin sought to switch the aid to the steel plant. He said at first that if the aid were transferred Davy would be well-placed against the main competition, said to be from the Italians. But in negotiation my officials rejected this approach as not being good enough, since this would be similar to the situation he had presented on the iron plant. Quite apart from the Italians, the Japanese are also bidding aggressively for this phase, and we saw no advantage in offering aid to act as a stalking horse for others. We therefore said that provision of aid on the steel-making phase could only be considered if Davy were offered an exclusive negotiating position for this phase. Ongpin finally accepted these arguments and Davy having themselves also made a substantial price reduction (which is reflected in the figures above) now have an effective letter of intent, conditional on aid as set out above being provided. If we do not make a satisfactory offer of aid by 15 January, negotiations with Davy will be terminated.

Subsidy

The subsidy content of the proposed aid package, taking into account the considerable additional business which will be obtained on commercial terms, is 31.2% which is marginally less than was proposed for the iron plant. Details are set out in annex A. I should add that in re-negotiation on the iron plant, we had avoided ever indicating that as much as £27M could be available; this has enabled us to keep down the level of aid on the steel plant.

Conclusion

Although it is disappointing to have lost the iron-making stage of this project we

now have an excellent opportunity to secure the major contract for the steel-making stage, at a slightly lower cost in aid terms. I would be grateful for colleagues agreement to this. I am meeting Minister Ongpin on 4 January, and if at all possible an agreed position by then would be very helpful. In any case, as noted above, I should be grateful for a response by 7 January.

I am copying this letter to the members of EX and to Neil Marten.

Yours sincerely,

Jonathan Rees

PP PETER REES [Agreed by the Minister and signed in his absence]

ANNEX A

ILIGAN PROJECT

Subsidy on ECGD interest support and on ATP grant

	Electric arc package £m	Utilities £m	Training £m
UK content	74.5	41.7	2.2
3rd country costs	5.7	3.0	-

	Actual HMG subsidy £m	Discounted HMG subsidy £m	Subsidy element %
1 ATP grant			
- on electric arc package	22.9	17.3	20.2
- on training	2.2	1.7	2.0
	25.1	19.0	22.2
2 ECGD interest support			
i. for UK content	13.1	6.2	7.2
ii. for 3rd country/ EC	0.8	0.4	0.4
iii. for local costs	2.5	1.2	1.4
	41.5	26.8	31.2%

Standard discount rate currently in use: 12%
(market rate at present: 11⅞%)