

INDUSTRIAL POLICY RECOMMENDATIONS

A Paper by Mr. Haseltine

Our industrial policy depends on the conviction that the only certain way to stimulate the industrial economy is to create sufficient confidence amongst decision takers that new investment will earn the profit they consider necessary to justify laying out the resources required and taking the risks involved.

The factors that go to make up that confidence - for example public expenditure, inflation, tax, price and dividend restraint and employment policies - are very largely outside the sponsored activities of the Department of Industry. To this extent the impact of the policies of this department operates at the margin affecting only a tiny number of companies. The publicity surrounding these companies can however have an impact out of all accord with their number.

This paper does not contain recommendations on policy towards the nationalised industries or on regional policy. These aspects are still under consideration by policy groups:

A. Policy towards existing Industry Acts1. Industry Act 1972

Controversy has always surrounded the use of Section 7 (aid in the regions) and Section 8 (aid outside the regions) of this Act, which gave government discretionary powers to provide financial assistance to industrial companies. Safeguards on the use of these powers - namely that they could only be used where financial assistance was available in no other way, that shares acquired be disposed of as soon as was reasonably practicable, and that not more than 50 per cent of a company's share capital be acquired under S.8 - were removed by Labour under the 1975 Industry Act. To repeal Sections 7 and 8 would leave government in a wholly inflexible position where it was unable to act quickly even if it felt a particular industrial crisis merited a government presence. It would deprive a Conservative Government of the power to provide limited and temporary financial assistance to any company. It would involve reverting to the 1970-72 position which we ourselves abandoned in the light of our experience. It would remove from our government powers commonplace in competing economies. It would also expose us to the risk that our general progress across a broad field would be discredited because our policy was associated with one spectacular collapse where we were seen to have given up any power to assist.

Therefore I recommend:

- (i) that the Industry Act 1972 and the Section 7 and 8 powers, be retained by a Conservative Government.
- (ii) that the safeguards on the use of Section 7 and 8 powers, removed under the 1975 Act be restored, together with the guarantee of a parliamentary debate on their use, (retrospectively necessary), whenever assistance in excess of £5 million was granted under Section 8. (These recommendations should be included in speeches and in an eventual manifesto which should stress that these powers would only be used as a short-term expedient to establish long-term viability).

I propose one additional safeguard as outlined in paragraph 2(a)IV.

2. Industry Act 1975

We are pledged (Hansard 17.2.75; col. 965) to repeal this Act following a decision of the Shadow Cabinet.

I recommend that we maintain that public commitment.

However, this Act contains some necessary and non-controversial provisions on such matters as ship-building credits and NRDC.

Our preferred option should therefore be to repeal the Act in toto and to restore any non-controversial parts in the same Bill, amended where necessary. Accordingly, the principal provisions of the 1975 Act concerning the NEB, Planning Agreements, Prohibition Orders and Disclosures are discussed below.

(a) National Enterprise Board

I recommend that we declare our intention of winding up the NEB in its present form. Wherever possible its shareholdings should be sold back to the private sector. However, some of the NEB shareholdings we inherit are today unsaleable to the private sector (e.g. Rolls Royce 1971, British Leyland as a whole, Alfred Herbert). Therefore, a holding company will have to be retained unless we transfer the holdings back to government departments. I believe there are arguments for using commercial managers to scrutinise and monitor state holdings thus keeping those entities at one remove from political and bureaucratic interference.

We should accordingly:

- (i) change the name of the NEB to emphasize the change in its function;
- (ii) revise the NEB's function of extending public ownership into profitable areas of manufacturing industry;
- (iii) oblige the NEB to sell its shares back to the private sector, as soon as should be practicable;
- (iv) use the new body as an agency of government without originating powers of its own. Beyond its function as a hospital as above it would undertake only those acts where it used the tightly controlled powers of the 1972 Industry Act on behalf of the Secretary of State.

As an additional check on the use of these powers the Industrial Development Advisory Board (set up under the 1972 Act to advise the Secretary of State) should report in addition to a select committee of the House of Commons on the workings of the Act in order that detailed parliamentary scrutiny be created to replace the inadequate procedures now followed.

These proposals should be set out in speeches and in our detailed manifesto.

(b) Planning Agreements

Planning Agreements under the 1975 Act are voluntary. I very much doubt if any company will become involved against its interests. We are sceptical and should remain so.

I recommend that consultations be taken with any companies after our return to power who have planning agreements before finally reaching a decision to end agreements, and before making any public commitment to do so.

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(c) Prohibition Orders

These are powers to prevent control of British companies passing into foreign ownership. We have not objected to these provisions in principle although there are criticisms of detail. I do not recommend any change in that position.

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(d) Disclosure Provisions

These have proved distasteful to private industry and were fought by us during the passage of the Bill. I doubt if they will be used by this government.

I recommend that we maintain our commitment to remove them from the statute book.

3. Aircraft and Shipbuilding Bill

If the Bill is enacted we are pledged to alter the companies concerned back to private ownership in whole or in part.

I recommend that we maintain that public stance and place in our manifesto in the event of its ever becoming law our intention to sell off the interests of British Shipbuilders and British Aerospace to the private sector as far as should be possible. This commitment would be similar to our commitment to dispose of the shareholdings of the NEB.

B. Policy to secure a more profitable and efficient environment for British Industry and a beneficial partnership between Government and Industry

In all advanced free enterprise economies there is inevitably a close degree of interdependence between Government and Industry. The difference between other countries and our own is that elsewhere governments see it as a priority to help industry wherever possible and in whatever way whereas here industry believes itself under attack. Our policies must be designed to convince industry that a constructive partnership can be developed between government, industry, unions and the financial institutions in order to:

- (a) identify the main impediments to greater efficiency and growth, and propose how they should be surmounted;
- (b) indicate any investment decision where governments might have a role in each sector and relate government investment strategy with potential markets for the private sector, particularly overseas.
- (c) anticipate the future problems and opportunities for each sector to ensure that problems are confronted as early as possible and show what action can be taken by any of the partners which would be of help to each sector.

The revitalisation of industry can only be achieved by industry itself, and by Government allowing enterprise, skill and competitiveness to have its opportunity and its reward.

However, our next government will have an inescapable contribution to make to reverse Britain's relative post-war industrial decline and present inadequate investment levels. The NEDCs are the best framework within which to conduct any necessary partnership between Government and Industry simply because they already exist and no time consuming, controversial legislation is needed. Some thirty industrial sectors are now involved in an appraisal of their future.

I therefore recommend that in public speeches the role of the NEDCs be recognised and we commit ourselves to continuing with the sectoral appraisals I have mentioned.

Finance for Industry

There is no evidence for the financial sector's inability to meet industry's cash requirements. We suffer from lack of profit not lack of funds. I do not therefore wish to make any long-term proposals in this area. If we were now in government I would recommend a tax rebate scheme to profitable companies to bring forward investment but the need for this could be overtaken by rising investment intentions next year. However, I recommend that we take effective steps towards assisting profitability and confidence by:

- (i) promising the renegotiation of the statutory price code on industrial products to stimulate investment. How?
- (ii) applying inflation accounting for assessing taxable profits, as well as book profits, meanwhile continuing the present system of allowing stock appreciation to be deducted for corporation tax purposes. We should repeat our commitment that deferred tax liability arising from the Healey scheme will not be collected.

I recommend that we maintain our public commitments on these points.

Financial Effects

Exact savings to the exchequer are hard to assess, as expenditure is dependent upon the level of Industry Act assistance to industry which we choose. There ought, however, in any economic conditions to be substantial savings on the Government's proposed annual £225 million NEB budget.

We should say this publicly.

M.H.

MT separately read & annotated a second copy of Michael Heseltine's paper, which follows:

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