

MINUTE on the committee meeting on Industrial Policy, June 9th 1977

Present : Sir Keith Joseph, Norman Lamont, Michael Grills, Adam Ridley, Dr. Coppisaro, John Hoskins, Anthony Gray, Alfred Sherman, Philip Vander Elst

An agenda was drawn up for future discussion and study of topics relating to the general and detailed conduct of industrial policy. These were :

- 'Industrial strategy' (as a general concept)
- Industrial 'dynamic' /motivation
- Government expenditure
- Exchange control /Exchange rate policy
- Regional policy
- Industry Aid
- Bullock
- Invisibles (ie. the contrast between the successful record of British overseas investment and the domestic failure of British industry).

It was agreed from the outset that the framework within which the committee would discuss the details of industrial policy would be one based on the general desirability of a 'steady state' macro-economic policy and the general need to create the conditions for a revival of the free market economy. The necessity of conducting the examination of specific policies within a prior analytical - philosophical framework was accepted by all, and stress was also laid on the desirability of enumerating the reasons for the failures of socialism and interventionism in order to provide a background and reinforcement to the committee's general analysis. The existing consensus within the Party about economic policy was reviewed with the intention of using it as a basis for the committee's work, and as a basis for identifying those areas where there was a vacuum in analysis and prescription. The state of Party thinking on the

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different but interrelated aspects of economic policy is outlined below in summary form:

- 1) Anti-'fine tuning' .
- 2) Anti-excessive legislation and institutional reform.
- 3) More time to be given to the discussion of fiscal proposals which should also be exposed to much wider debate.
- 4) Money supply to be the principal control variable in monetary policy with interest rates being allowed to move freely and 'take the strain' .
- 5) Exchange controls should be kept to a minimum, though action in this area must proceed with due caution owing to the need to take into account the exchange control policies of other countries, foreign confidence, and limitations on a British government's freedom of action due to EEC membership.
- 6) Government provision of information about its objectives (eg. its attitude to the question of overseas indebtedness) needed to enable the market to operate as an efficient regulatory agency.
- 7) A clearer policy needed on North Sea oil instead of present ragbag of cliches and platitudes about the undesirability of nationalisation, etc. Agreement that the Party has not done its homework in this field.
- 8) On fiscal policy: there should be a shift from direct to indirect taxation, a reduction in the share of GDP of public expenditure and taxation, and a reduction of marginal tax rates.

- 9) Inflation/incomes policy: there should be a disengagement from statutory intervention except possibly 'in extremis', a shift of emphasis away from exclusive cooperation with the major social partners, and the provision of an educational forum for the explanation and elaboration of the relationship between wages, prices, productivity, and employment. A considerable scepticism should also be encouraged towards Phase III of the present Government's incomes policy.

REVITALISING INDUSTRY - GENERAL APPROACH

Discussion then proceeded on some of these issues to see what agreement could emerge from within the committee on the desirable directions of future Conservative policy making. On the subject of the need for keeping new legislation and institutional reform to a minimum it was agreed that consideration should be given to the merger of the Trade and Industry departments. Discussion then moved on to analysing the root causes of Britain's economic failure as represented by the country's appalling industrial base. The principal question emerging from this debate was whether changes in the fiscal and monetary framework of the economy would be sufficient to motivate entrepreneurs and revitalise British industry, or whether such a policy would need to be supplemented by an interventionist micro-economic strategy. The role of the Neddies and of the sectoral working parties (SWPs) was raised in this context. The consensus that emerged was that interventionism in the past had largely proved a failure (eg. the textile industry in the 1960s) by misdirecting manpower and capital and propping up dud enterprises at the expense of profitable ones, and that the Neddies and SWPs had often dodged the real issues (eg. overmanning and restrictive labour practices) because they were too politically controversial. Nevertheless, the Neddies and SWPs could have a useful 'educative' function to which they should be confined, while the question of the financing of specific industrial schemes could be treated separately: aid of this nature preferably being directed to workers rather than companies in the interests of facilitating the process of industrial change. It was also agreed

that an official 'declaration of intent' setting out publicly the next Conservative Government's proposed aims vis a vis encouraging enterprise (through tax cuts, etc.), could act as a valuable psychological tonic to industry. Finally it was agreed to study a number of possible schemes designed to encourage free enterprise and advertise its benefits in new, imaginative ways. These included :

- 1) a 2 year holiday for IDCs
- 2) the establishment of tax and intervention free areas as 'shop window' advertisements for free enterprise - special stress being laid on the encouragement of small businesses (the 'Channon' approach)

Regional Policy

It was generally agreed that though regional policy had largely been a failure in the past (through encouraging capital intensive industries at the expense of employment creating industries) it was, for political reasons, not possible to fight an election on the basis of abolishing it completely. The Party's aim should rather be to eliminate the wastes and inefficiencies in regional policy within the wider context of an economic policy aiming at the removal of obstacles to mobility that had grown up as a result of some of the past actions of government - eg. council housing, the importation of 'Third World' labour into London and the S. East - ^{West Midlands + South Yorkshire} so encouraging an artificial boom, the hoarding of land by councils etc. The question of whether aid to the regions should be highly selective was raised but there was general uneasiness over the conflict such an approach entailed with the principle of the rule of law (that it should be general and predictable). There was general agreement with the existing Party consensus on regional policy which seeks to:

- 1) raise the IDC threshold
- 2) put a 'top stop' on regional grants
- 3) eliminate subsidies to 'capital intensive' projects.

It was also agreed that it would be desirable to commission a thorough analysis of regional policy by sceptics (e.g. Peter Hall and Edwin Brooks), and that regional policy should be monitored as well.

National Enterprise Board

It was accepted that the government's holdings in British Leyland and Rolls Royce could not be sold off immediately and that therefore the question had to be resolved of who would own or control BL and RR. It was agreed that the NEB had tended to divert resources into wasteful and unviable enterprises and projects and that industry (particularly companies involved in the NEB) was cynical about its role. There were two basic options: (1) to abolish the NEB on the grounds that there would then be one less honeypot to attract flies. (2) to keep the NEB, change its name, and abolish its originating function - by ministerial direction, not by new legislation. In conclusion, it was agreed that the committee should find out how many legislative tasks the next Conservative Government would be setting itself in order to place the question of the NEB in the right perspective.

Nationalised Industries

It was agreed that the objectives of the nationalised industries had varied and conflicted over the years (which largely explained their poor performance) and that the central question was to decide what was the central purpose of the industries and what scope there was for demonopolisation. It was agreed that:

- 1) government research departments should be as self-financing as possible and so put on contracts
- 2) the official paperwork load on industry should be reduced (as opposed to reducing the number of civil service statisticians)
- 3) taxes on 'unearned' income should come down sharply to generate private funds for research and thus reduce the need for government research
- 4) the idea of turning some state enterprises into proprietary companies with certain tax privileges and other privileges should be considered
- 5) the idea should be seriously considered of demonopolising the electricity industry by allowing private electricity generators and private access to the national grid
- 6) attention should be paid to repealing the monopoly of the Post Office and letting it be whittled away by more efficient private competition (the possibilities of which were demonstrated during the postal strike under the previous Conservative Government)
- 7) British airways should become autonomous and self-financing.

In conclusion it was agreed that three papers should be prepared for a future meeting on : (1) Nationalised industries, (2) Finance for Industry, (3) Small businesses.

PHILIP VANDER ELST
(Secretary)