

BAKER
MP

4th March, 1980

May thanks for your letter of 26th February, with which you enclosed a copy of a letter of the previous day's date, which you had sent to Keith Joseph.

I have shown your letter and its enclosure to the Prime Minister.

Do please have a word about this.

Pan Gow

Kenneth Baker, Esq., M.P.

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From: KENNETH BAKER, M.P.

HOUSE OF COMMONS
February 26, 1980 LONDON, S.W.1.

Ian Gow Esq MP
House of Commons
SW1A 0AA

Ian Gow

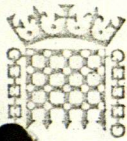
I thought you would like to
see a copy of the letter I sent
to Sir Keith Joseph MP.

Particularly as you were at the meeting

*Very truly
yours*

KENNETH BAKER, MP
enc

Kenneth Baker



From: KENNETH BAKER, M.P.

HOUSE OF COMMONS
LONDON, S.W.1.

February 25, 1980

The Rt Hon Sir Keith Joseph Bt MP
S/S Industry
Dept Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

mt.

My Dear Keith,

Last Thursday night, the Chairman and senior executives of Massey Ferguson-Perkins, gave a Dinner for 6 M.Ps. They included Tony Grant, Chairman of the Trade Committee. The story they had to tell was certainly alarming, and as they are Britain's eleventh biggest exporter, I thought that I should pass on to you the burden of their message.

They are very concerned at the growing uncompetitiveness of British manufacturing industry. In Coventry, they have one of the largest tractor factories in the world, and over the last year, they have cut costs by £16 m., by doing all the things that good management is expected to do - closing a plant; reducing overheads; higher plant investment. Yet at the same time, all the savings have been eliminated by the higher exchange rate accounting for £10 m., higher interest rates for £5 m and higher gas charges £1 m. So, after a year of prodigious effort, they are no more competitive. They gave us a chart showing the likely trend. Already they are sourcing more and more of their components overseas, and within three years, they frankly said that they may be making the tractors themselves elsewhere.

The scope for further improvement is limited. Direct labour accounts for only 10% of the final price, so if they doubled their factory production, they could save only between 3 and 4%

They argued for lower interest rates quickly, through Government intervention, as they saw this as the quickest way to get the exchange rate down. There is a deeper difficulty here. The fact that we now have a petro currency means that the terms of trade have moved against us. Since January 1979, the Pound has risen by over 14%. Those who seek to argue that Germany's prosperity was based on a strong currency, should recall that over the years, the Deutsche Mark rose very slowly by an average of about 2% a year.

The danger for British manufacturing industry is, that the high level of the Pound, which is likely to persist for several years, will force us to abandon making many things in this country. This is exactly the message we got from Fisons, and Tony Grant has since had the same from Lansing Bagnall.

Do the Department's forecasts support this trend and if so, what can be done?? I am fearful that the decline may be much faster than previously anticipated, and the regeneration of new industries will not be showing good enough results in our political time scale.

The policy options seem to fall into two groups, the defensive and protective on the one hand, and the positive on the other. The arguments for more protection are bound to grow. I have no doubt that long term protection can only be harmful to us, but some short term measures may give us more breathing space. What scope is there for a more determined policy on selective protection like US Fibres? Can't we devise covert ways like France and Japan to give a helping hand to our own firms?

On the positive side, can't we beef up the encouragement and help for our communications based industries? We cannot afford as a country to lose one trick here. This is one of the few areas which will create jobs. What more can we do to help?

Public procurement is a vital channel of support. Can orders for British equipment be placed early to provide a shop window? Can public contracts contain an R & D element - this is what Washington does? Can't more public orders be 'guided' to UK firms, where the difference in price, quality and performance is narrow and where in the overseas Governments there is an element of subsidy?

How many Government departments have installed Prestel? How many word processing machines are in Whitehall?

We must find ways of encouraging these new high technology industries, and provide new incentives for private sector cash to take them. In the medium term, I am not at all despondent about British industry. We have a good supply of inventiveness and a very large pool of skills. The problem is, as the Americans say, "getting our act together".

Please no reply. We can discuss it on next officers meeting

KENNETH BAKER, MP
enc

*Tom on
Baker*