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Secretary of State for Trade and Industry

18 December 1985

Philip Wynn Owen Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1

UK

To write.

*DHS
18/12*

Dear Philip,

**GOVERNMENT REPLY TO THE REPORT FOR HOUSE OF LORDS' SELECT
COMMITTEE ON OVERSEAS TRADE**

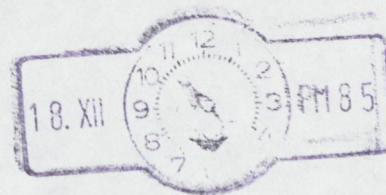
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I attach an advance copy of this Command Paper, which is to be published at 2.30pm tomorrow. The text is precisely the same as that of the Government response which was placed in Parliament on 2 December, and which I circulated to the Private Secretaries to Members of E(A) on 29 November.

I am copying this letter and enclosure to Private Secretaries to other members of E(A), Robert Culshaw (FCO), Ron Lawrence (Lord President's Office), David Beamish (Lords Whips Office), Alison Smith (Lord Privy Seal's Office), and Michael Stark (Cabinet Office).

*Yours ever,
Michael*

MICHAEL GILBERTSON
Private Secretary



Press Notice

**Department
of Trade and
Industry**

1 Victoria Street, SW1H 0ET Press Office: 01-215 5995/5060 Ref: 748
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2 December 1985

GOVERNMENT REPLIES TO LORDS REPORT ON OVERSEAS TRADE

The government has issued today (2 December) a written reply to the Report of the House of Lords Select Committee on Overseas Trade.

In a written answer to a parliamentary question from Lord Aldington, Lord Lucas, Parliamentary Under Secretary of State for Trade and Industry said:

"The government has today arranged to place its written reply to the Select Committee's report in the Library of the House and will issue the text in the form of a command paper in due course. The House will have an opportunity to debate the report tomorrow."

ENDS

NOTES TO EDITORS

1 Press copies of the government reply are available from DTI press office, tel: 01-215 5060/5061.

2 The House of Lords Select Committee report was published on 16 October 1985.



GOVERNMENT REPLY TO THE REPORT OF THE HOUSE OF LORDS
SELECT COMMITTEE ON OVERSEAS TRADE ON THE CAUSES AND
IMPLICATIONS OF THE DEFICIT IN THE UNITED KINGDOM'S
BALANCE OF TRADE IN MANUFACTURES

Introduction

The Government welcome the report of the Select Committee as a contribution to discussion.

Analysis

2. The Government agree with many of the Committee's conclusions and recommendations, though in their view they apply to the whole of the non-oil trading sector and not just, or primarily, to manufacturing. In particular, the Government agree that:

- a healthy trading sector is vital to the success of the British economy. It is essential to encourage initiative and enterprise.
- the long-term decline in the relative performance of the UK economy is a matter for concern. The decline in the relative importance of manufacturing is not, of course, a recent phenomenon. The trend has been evident for most of this century and has been mirrored - at a faster or slower rate - by developments in all the other major Western economies since the Second World War.
- the competitiveness of the UK economy, both price and non-price, must be improved further. It is vital to maintain downward pressure on wage costs.



- adjustment to the decline in North Sea oil production is an important issue facing the economy (though the Committee, have in the Government's view, overstated the likely speed of that decline).

3. The Government do not, however, accept the Committee's view that there is a "grave threat to the standard of living and to the economic and political stability of the nation" (paragraph 231.6) which amounts to a crisis and requires a new departure in the form of an action plan.

4. In reaching this conclusion, the Committee have, in the Government's view, paid insufficient attention to the policy changes that have already taken place. The whole thrust of Government policy since 1979 has been designed to reverse the long standing deterioration in the competitiveness of the UK economy and to create the conditions in which enterprise and initiative can flourish. Downward pressure on inflation has been successfully maintained, which has been an essential pre-requisite for sustained growth in all sectors, and a range of measures has been introduced to improve the functioning of the economy. These include the reform of trade union legislation, the improvement of work incentives, the restructuring and expansion of training the removal of unnecessary legislative and administrative burdens, steps to encourage the growth of venture capital, and the strengthening of competition.

5. The sustained recovery of the UK economy in recent years, to which in the Government's view the Committee also give insufficient weight, is evidence of the beneficial effects that these policy changes are beginning to have and helps to put some of the Committee's conclusions into perspective.



Manufacturing output fell at the beginning of the decade as the economy belatedly adjusted to correct long-standing weaknesses at a time of world recession. But since then there has been steady growth. Compared with their troughs in 1981-82 manufacturing output has risen by 11 per cent, manufacturing investment by around 25 per cent and manufacturing productivity by 31 per cent; the volume of manufactured exports has reached a record level. Further growth in output is expected for next year.

6. There are also important elements of the Committee's analysis with which the Government strongly disagree. Whilst the Government are not complacent about the future of manufacturing industry they do not accept the Committee's call for greater discrimination in favour of manufacturing. The logical conclusion of the Committee's analysis is that economic policy should aim to increase the competitiveness and adaptability of the whole economy, not just one particular sector.

7. The Committee identify overall economic performance with the balance of trade in manufacturing. They state (paragraph 72) that "sustainable growth has not been possible and will not be possible without a favourable trade balance in manufactures". There is, however, no close link between the manufacturing trade balance and the performance of manufacturing industry, nor indeed the performance of the economy as a whole. In 1980 the trade balance in manufactures strengthened as manufacturing output fell, and the most rapid weakening in the balance has coincided with the recent period of recovery in manufacturing. The balance moved from a surplus of £4.6 billion in 1981 to a deficit of £3.8 billion in 1984 as manufacturing output increased by 7 per cent. Manufacturing accounts for just under one-quarter of GDP so that the connection between the



performance of manufacturing and overall economic performance need not be a very close one.

8. Furthermore the Government consider that a major influence on the trade balance in manufactures has been the growing surplus in oil. An increase in the surplus on one element of the balance of payments must imply an increased deficit on other parts of the accounts. The foreign exchange earned from oil is used to purchase additional imports, both capital and current, and to invest overseas. The Committee are not consistent on this point. In paragraph 231 of the report the Committee accept that North Sea oil has contributed to the manufacturing trade deficit; but at the same time they argue that oil is masking the deficit.

9. The Committee concentrated, in line with their terms of reference, on the manufacturing trade balance; consequently they gave less weight to other important aspects of the problem of adjusting to a non-oil future. The UK will have to increase exports of goods and services to compensate for the reduction of the oil surplus. The greater is the level of output in the economy the easier that will be. Shifting resources into the non-oil balance of payments requires that the whole economy is sufficiently competitive and adaptable. The Committee acknowledge the importance of competitiveness but could perhaps with advantage have given more emphasis to the question of adaptability and particularly to labour market flexibility.

10. The Government consider that the Committee's emphasis on the need to increase exports of manufactures is too narrow. With the value of manufactured exports still more than twice that of exports of services, much of the burden of adjustment will fall on the



manufacturing sector. But neither is more intrinsically worthwhile than the other. No-one suggests that exports of services could make good all the decline in the oil surplus, but exports of services will undoubtedly have a valuable contribution to make.

11. The Government do not share the Committee's view that increased exports of manufactures will require increased Government assistance to manufacturing. The decline in the oil surplus will put downward pressure on the real exchange rate (in the same way as the Committee accept that the build up of the surplus put upward pressure on the rate), and, in any event, manufacturing can do much to help itself by keeping tight control of unit labour costs. The Committee's analysis also ignores the crucial wider effects of subsidies on the economy as a whole. Increased subsidies to manufacturing imply an increased tax burden on the rest of the economy, so that attempts to promote manufacturing would be at the expense of other sectors.

The Committee's call for action

12. The Government's comments on the specific conclusions and recommendations in paragraph 232 of the report are set out below. Many of the recommendations concern policies which the Government already pursue and will continue to develop.

National Attitude (232.1)

13. The Government strongly agree with the Committee on the need for greater recognition, throughout society, of the importance not just of manufacturing industry but of the whole wealth creating sector. The Committee rightly identify the crucial role of the education system in this. Many of the Government's



policies have been designed to contribute to this change and to the creation of an enterprise culture, though these are not matters for the government alone. The recent White Paper "Better Schools" recognised the importance in education of preparation for working life; and the Green Paper "Higher Education into the 1990s", drew attention to the need for higher education to beware of "anti-business snobbery", and to seek opportunities to encourage the entrepreneurial spirit. The Micros in Schools Scheme, The Technical and Vocational Initiative and the Youth Training Scheme are examples of programmes designed to achieve these objectives. The Government also support, and are contributing to the central costs of, "Industry Year" which the Royal Society for the Encouragement of Arts, Manufactures and Commerce has launched with the objective of promoting a better understanding of industry.

Competitiveness (232.2)

14. The Government are in full agreement with the emphasis placed by the Committee on all aspects of competitiveness. Against a background of satisfactory monetary conditions the way to succeed in international markets is to increase efficiency and reduce costs, in particular unit labour costs on which UK performance is still significantly worse than that of our major competitors. The CBI's Conference has recently shown that industry recognises its primary responsibility for this. The Government also agree with the Committee's conclusions on the non-price aspects of competitiveness; the Government have launched a number of initiatives to promote wider awareness of the importance of high standards of quality and design, and the Department of Trade and Industry provides a range of advisory services and other assistance in these fields. But here again the prime responsibility lies with industry and its managers.



Coordination of Industrial Policy (232.3)

15. The Government accept the importance of continuity and consistency in industrial policy. The NEDC has an important role to play in bringing together representatives of industry, unions, and government. The Council frequently discusses reports covering different sectors of manufacturing industry. The great majority of the NEDC sector committees deal with the manufacturing industries. As NEDO said in their evidence to the Committee, "the ingredients already exist for exchanges of views, the outcome of which can be as far-reaching as the parties choose to make them". No new committee is needed.

Support Measures (232.4)

16. The Government already undertake a substantial programme of support for industry. In the current financial year, the DTI will spend £430 million, about a third of its total budget, in support of industrial R and D and innovation. This programme covers support for collaborative research, including the Alvey programme concerned with advanced information technology; awareness among users of new technologies such as micro-electronics, robotics and advanced manufacturing techniques; and selective support for the projects of individual firms which offer a significant technological advance likely to benefit the whole economy. Further substantial support is provided through regional and territorial spending, through support for exports and through expenditure on training (see Annex).

17. The Government has not neglected infrastructure nor ignored capital projects. They do, however, agree with the Select Committee that infrastructure projects should only be undertaken where they can be justified in terms of economic and social returns. Average



annual expenditure on basic infrastructure has been higher in real terms than when the Government came to power. Some increases in capital spending above previous plans were announced in the Autumn Statement.

The Exchange Rate (232.5)

18. The Government agree with the Select Committee that greater stability in exchange rates is desirable. This is, however, not something that any one country can achieve on its own. Stability against all currencies will be more easily achieved when the dollar settles down at a sustainable level. The achievement of a sustainable dollar exchange rate was one of the principal aims of the meeting of G5 Finance Ministers on 22 September. The meeting agreed that an essential condition of more stable exchange rates was convergence of economic performance in the major non-industrial countries along the path of steady non-inflationary growth.

Interest Rates (232.6)

19. The Government are well aware that high interest rates can cause problems for companies. It is no part of their plans to hold interest rates any higher than is necessary to secure conditions which will maintain downward pressure on inflation. Industry would, however, face far greater problems if the Government tried to force interest rates down prematurely. It is unrealistic to assume that lower interest rates that led to a relaxation of monetary conditions and hence to upward pressure on inflation would leave industry's costs unchanged. Any transient savings to industry would quickly be reversed as inflation accelerated.



Taxes (232.7)

20. The Government believe that the tax changes they have made will improve the performance of all sectors of the economy. In particular the corporation tax changes of 1984 included a progressive reform of capital allowances and a reduction in the corporation tax rate from 52 per cent to 35 per cent. The 1984 Budget also completed the abolition of the National Insurance Surcharge, which at its 1979 rate would now be costing private employers £3½ billion a year. A Green Paper on local rates will be published next year.

Management (232.8)

21. The Government accept the Committee's views on the need to attract an increasing supply of high quality entrants to industry, and the need for education to be responsive to the needs of industry. This is a central theme of the Higher Education Green Paper referred to in paragraph 13 above, which lays particular emphasis on the need for higher education establishments to develop their links with industry and commerce. This was also one of the main recommendations of the IT Skills Shortages Committee and the experience of close links with industry was an important factor in the allocation of support made under the Government's £43 million Engineering and Technology Programme. The Government accept the need for better in-service training in industry. Continuing training is encouraged by the range of programmes administered by the Manpower Service Commission.

Investment (232.9)

22. The Government endorse the importance attached by the Committee to investment in industry. The best motive for investment is the prospect of profit. In 1985 the real rate of return of non-North Sea oil



companies is expected to be at its highest level since 1973. The Government recognise that the behaviour of public purchasers can have a profound effect on the health of suppliers. The Government's approach is to get best value for money while using their purchasing power to enhance competitiveness.

Export Promotion (232.10)

23. The Government welcome the support which the Committee have given to the work of the British Overseas Trade Board. The BOTB's policy is to concentrate the funds available on the most cost effective services, and within that to place the main emphasis on helping smaller companies to enter new export markets. The Government have also noted the Committee's views on the Aid and Trade provision (ATP). The Secretary of State for Trade and Industry announced on 12 November an increase in the total level of ATP support available to British companies, and the introduction, with the full support of the financial community, of a new soft loan facility. The Government are satisfied that the facilities and premium charges of ECGD remain broadly comparable with those of its counterparts overseas. The aim remains to phase out export subsidies multilaterally. The Government are pleased to note the favourable comments of the Committee on the skill and competence of FCO staff engaged in commercial work at home and overseas. Within the manpower constraints to which the civil service as a whole is subject, it has been possible this year to reinforce commercial staff at a number of key Posts.

Import Substitution and Foreign Sourcing (232.11)

24. The Government agree with the Committee that the private sector can do much, without sacrificing value for money, to substitute goods made in the UK for those



currently imported. The Government welcome the initiative of Lord Sieff, Sir Basil Feldman and others in this regard and the "Better made in Britain" exhibitions arranged through the NEDC. The Government also have a part to play, for example by urging buyers to take a second look at the merits of British goods before turning to a foreign alternative. The Government recognise the concern of the Committee over the sourcing policies of multinational companies. There is in some cases a need for a better balance between what a multinational company sells and sources here. While having regard to EC and GATT obligations the Government have detailed discussions with companies to impress that need on them.

Fair Trade (232.12)

25. The Government also accept the views of the Committee on the need to eliminate unfair practices in international trade. It is the Government's policy to work with our Community partners for a common trade policy which reduces remaining barriers to trade and furthers the open trading system. This will be a main objective of the new round of negotiations in the GATT whose launch we favour. The Government also attach high priority to securing a more complete and genuine common market for goods and services within the European Community. The Commission's recent White Paper, and the agreement at Milan in June to create a single market by 1992, offer a real opportunity for progress. In 1986 the Government will work for a substantial advance towards this objective.



Awareness of International Comparisons (232.13)

26. The Government note the Committee's recommendation. It is the function of our Posts in other major industrial countries to report on significant industrial and technological developments there.

Department of Trade and Industry
December 1985

SUPPORT MEASURES LARGELY GOING
TO MANUFACTURING INDUSTRY

£m current prices

	<u>1979-80</u>	<u>1984-85</u>
<u>A. DTI (excluding export support)</u>		
1. Regional and national selective assistance (all industries excluding tourism)	439	582
2. General industrial R&D support	86	279
3. Aircraft and aeroengine R&D and space	56	97
4. Financial assistance to: aircraft and aeroengines, Rolls Royce, BL, shipbuilding and steel	338	148
(i) <u>Sub-total (A1-4)</u>	<u>919</u>	<u>1106</u>
 <u>B. Territorial</u>		
1. Scottish Office: industry, energy trade and employment (excl. tourism) including some RDG for 1984-85	100	203
2. Welsh Office: as for SO above	63	108
(ii) <u>Sub-total (A1-4, B1-2)</u>	<u>1082</u>	<u>1417</u>
 <u>C. D.Energy</u>		
Selective assistance to individual firms and industries	20	28
(iii) <u>Sub-total (A1-4, B1-2, C)</u>	<u>1102</u>	<u>1445</u>
 <u>D. Export Support (BOTB, ECGD expenditure and borrowing, and FCO)</u>		
(iv) <u>Total (A1-4, B1-2, C, D)</u>	<u>1537</u>	<u>2375</u>
 <u>E. DE/MSD Training</u>		
Major training programmes	420	1040

Spending on training is shown separately from the totals in row (iv) because it is less heavily concentrated on manufacturing.

LORD HANSON

Seen by the
P.M.
P.M.



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JV 8/12

December 4, 1985.

My dear Prime Minister -

At Willie's request, I made the attached short speech in support of the Government in the debate on the Select Committee's Report on Overseas Trade.

As ever

James

The Rt. Hon. Mrs. Margaret Thatcher, MP,
10 Downing Street,
London, S.W.1.

Lord Hanson: My Lords, I too should like to congratulate my noble friend, Lord Clitheroe, on his excellent maiden speech on a subject of which he has much experience at home and overseas. We look forward to hearing from him on many future occasions. I know from my own experience how much better he feels now than he felt at 4.30 this afternoon.

The House is greatly indebted to my noble friend Lord Aldington for initiating this debate and I should like to add my own appreciation and respect for the distinguished committee's report. My noble friend himself and the members of his committee brought to their inquiry a formidable array of experience, not only in manufacturing but in banking, insurance, consumer services, energy, international trade and not least in their experience of government office.

I must take this opportunity to apologise to your Lordships for the fact that I shall be unable to attend for the whole debate because of a long-standing previous engagement.

The committee sought to "draw attention to manufacturing industry", which objective they most certainly succeeded in achieving. It is not given to all reports to become best sellers or to generate such interest and comment. As a manufacturer myself as well as an international trader, I thoroughly approve of the spotlight being turned on the subject of Britain's manufacturing industry. The committee's analysis of how we have reached our present position—I decline to call it "plight"—contains a great deal with which industrialists are very familiar; but I for one do not agree with the diagnosis. It seems to me that there are

some major omissions. Most curiously, I think, it omits the fact that the commanding heights of British industry have been nationalised—for many of us for most of our working lifetime—with devastating consequences for Britain's manufacturing industry. Nationalisation turned huge sections of our industry into loss-makers. It absorbed massive investment capital and loaded all manufacturing industry with excessive energy and transport costs.

One major way of restoring manufacturing competitiveness in this country which is currently being actively pursued by this Government and which I am sorry not to see in the committee's list of recommendations, lies in placing these industries in the private sector where they belong, where the customer will decide whether they prosper or decline, and where the shareholder will put up his own money and take the risk of profit or loss.

My noble friend, Lord King of Wartnaby, whose experience and business success in manufacturing and service industry alike are withheld from us today because of his other duties, wrote recently:

"Britain's present position is not the product of the last six years but of the 20 years that went before",

and also:

"The wonder is that Britain, as the former 'sick man of Europe' has recovered from what appeared to be a terminal illness".

I thoroughly endorse his views.

The report rightly draws attention to the lessons to be learned from other industrial nations, but it touches too little on the desperately poor base from which our recovery had to begin. In my view, the committee does not give adequate recognition to the immense progress that we have already made. It does not give adequate recognition to the right business climate that has been created by this Government.

Much argument is made about the primacy of need of manufacturing over service industry; that our oil reserves are peaking, so we must busy ourselves to stimulate the manufacturing sector. As I said earlier, I am a manufacturer myself, but I do not buy that argument. Nor am I convinced that any good will come from the proposals for more government tinkering with this, interfering with that or throwing money at the other. Let us have no stimulation, please. It is only a polite euphemism for subsidy and it does not work. One has only to recall selective employment tax, which was a tax subsidy for manufacturing at the expense of the service industries. A tax subsidy for one sector must mean a tax penalty for all the others.

There is a great deal of evidence—some of it indeed described in the report and referred to this afternoon—that much of our manufacturing industry is healthier and more competitive than it has been for 40 years. The way that it will best grow is by manufacturers winning more of our home market. As my noble friend Lord Aldington said, our record of exporting is really rather good by international standards, but we should all be fighting the import market competitively. How can overseas manufacturers absorb all the extra costs of shipment to this country, setting up distribution and overcoming the language barrier and the local technical problems and still beat us in our own market?

The report addresses some of the problems in its call for action: better design, more R&D, better recruitment and training; all are necessary objectives to be pursued. But that is not the core of the matter. There is no magic solution, said the noble Lord, Lord Ezra. The plain fact is that manufacturing industry has shrunk, with some notable exceptions, because we have priced ourselves out of our own market-place. The report confirms that over and over again. When we price ourselves back into competition, our industry will grow. It will grow first by selling more at home and it will grow again because then we shall be competitive abroad.

As regards the exchange rates, look at the cries that we get the moment that the currency rises to reflect the country's economic strength! We get cries from our major manufacturing exporters, who are all strangely silent when we reach dollar-pound parity—£1 to the dollar. I am not sure what advantage they take of that rate at that time, but they certainly complain the moment that it goes up.

The real battle for British manufacturers, and one that we are fighting daily, is to reduce costs. I have already spoken of the burden on industry of energy costs, but we must continue the fight to control all costs, especially wages. For too long we have been getting "nowt for nowt", and I should like to see a little more "summat for summat". The report tells us of wage costs having risen here 260 per cent. compared to 70 per cent. in Germany and 110 per cent. in the United States. Productivity in certain industries still lags far behind foreign competition. But we must get our own house in order and keep it that way.

The report calls for relief from the burden on industry of rates. The answer to that is surely a vast reduction of the whole town hall machinery and a return to private enterprise of all possible local authority functions. I believe that if we hold to our present path the balance of manufacturing and services will evolve naturally and without the horror-movie scenario foreshadowed by the committee.

There is in the report a great deal that we can all warmly embrace, and above all its underlying theme: the need for change. I would have put it as the need to continue the present course of change. We have as a nation finally come to understand that the world does not owe us a living. We have really begun to believe that wealth has to be created before it can be distributed. There is some way to go, not least in the educational field, to which the committee draws attention. As my noble friend Lord Aldington said, and as was stressed by the noble Lord, Lord Plowden, I am not sure that industry is doing anything like enough to tell pupils and their teachers of the importance and attraction of a career in industry.

But we should take account of the measure of change that has been achieved. I can report only that I am happy to work in industry, and I do not feel at all gloomy about this great country's present position. With the continued encouragement of this Government I look forward with great excitement to Britain's future prospects.

Young rejects 'crisis' view of overseas trade

DIRECT government intervention to ensure a revival of Britain's manufacturing industry before North Sea oil runs out is not necessary or desirable, Lord Young of Graffham, the Employment Secretary, insisted in the House of Lords last night.

More conciliatory in tone than some of his Cabinet colleagues earlier, he rejected the view of the Lords Select Committee on overseas trade that there could be a crisis if Britain continues to be a net importer of manufactured goods when no longer self-sufficient in oil.

Lord Young claimed that the report had not placed enough emphasis on the action already taken by the Government to create the right atmosphere for the manufacturing sector to improve its performance. Too much emphasis was given to problems which the Government regarded as "important but not as catastrophic."

Earlier, many peers underlined their support for Lord Aldington (chairman of the select committee and a former Conservative minister), when he condemned the Government's attempt to "rubbish"

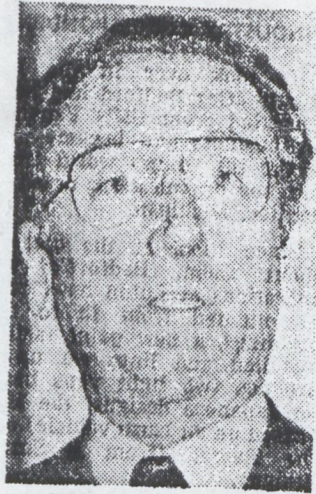
the report when it was published.

He stressed that the report's main theme had been the need to improve manufacturing industry's competitiveness and warned that even if the oil account remained in balance for another 10 years, the problems it had highlighted still needed to be tackled with urgency.

Lord Ezra (Lib), who served on the committee, believed the Government's position in light of Lord Young's speech, was that it disagreed with the "diagnosis" given by the report while claiming to be carrying out most of its recommendations.

Strong support for the Government's response to the committee's report was expressed by Lord Hanson (C) who described himself as a manufacturer as well as an international trader.

He rejected the report's "diagnosis" and criticised what he considered its many omissions. In particular he pointed to the failure to mention the fact that the commanding heights of British industry had been nationalised for most of the working life of many people with painful consequences.



Lord Hanson—attacked "omissions" of peers' report

Lord Hanson argued that the best way to expand the manufacturing base would be for British companies to win more of the home market. The manufacturing base had shrunk because, with some notable exceptions, "we have priced ourselves out of our own market," he said.

When British companies were able to price themselves in again, manufacturing industry would grow, first through

expanded home sales and then through selling more abroad.

Lord Aldington reminded peers that the balance of trade in manufactured goods had changed from a surplus to a deficit of nearly £4bn in 1984. There was no sign of a significant improvement in 1985.

Britain needed greater manufacturing output and a favourable balance in trade in manufacturing if it was to be able to continue paying its way.

Lord Aldington said the committee had concluded that there was a problem — a problem which was so serious that "if we do not start solving it at once we risk a major social and economic crisis in the foreseeable future."

Lord Young refused to accept that the Government was operating on "automatic pilot" but maintained that it was not for the Government to be the pilot.

Sensible economic decisions, he said, were best taken by those operating in the market place.

He maintained that the worst way to seek to achieve such an adjustment would be for the Government to discriminate in favour of one particular sector of the economy.

Lord Weinstock (Ind), managing director of GEC, praised the committee for correctly drawing attention to the serious dangers which lay ahead and in the light of which many of the measures in the Government's programme appeared rather irrelevant.

He called for new thinking without waiting for the crisis to arise and before the constraints of the electoral calendar got in the way.

Lord Weinstock maintained that the political decision taken by the Government to give overriding and exclusive priority to reducing inflation had had the consequence of restricting output and increasing unemployment.

While competition was necessary to prevent featherbedding, "national self-immolation in the name of a non-existent free market is surely carrying things too far."

Lord Kearton (Ind), another member of the committee and a former chairman of the British National Oil Corporation, warned that Britain's oil export cushion would go in six or seven years at best. He said: "We must have another industrial revolution when indigenous oil becomes a trickle."

FINANCIAL TIMES
DECEMBER 4, 1985

Industrial priority plea by peers

By WALTER ABURN Parliamentary Staff

OUTSIDE Government, there had been a big welcome for the Lords Select Committee Report on the state of Britain's manufacturing industry, Lord ALDINGTON, the committee's chairman, claimed in the Lords yesterday.

He said the report had been "rubbished" in Government Press releases.

But, he told peers, it was "urgent and for today."

Opening a debate on the plight of our overseas trade, he declared that there was "a real threat to living standards if we do nothing to meet the challenge."

Lord Aldington, former deputy chairman of the Conservative party, called for an urgent change of national attitudes to give the highest priority to manufacturing.

Serious misgivings

Lord BRUCE of DONINGTON (Lab) said the committee's moderate, factual report — one of considerable incisiveness — had been denigrated by Government.

But from next year the oil contribution to revenue would start to tail off and we faced a peril which required a firm sense of national purpose if we were to escape.

Lord YOUNG, Employment Secretary, said the Government unreservedly agreed with much in the committee's recommendations, but they had serious mis-

givings about parts of the report.

The success of British industry did not depend on changing Government policy. It was not for the Government to intervene as pilot in decisions which should be taken by those who worked in the marketplace.

We would be self-sufficient in oil into the mid 1990s and it would contribute to our balance of payments well into the next century. There was plenty of time for the economy to adjust to falls in these revenues.

Lord EZRA (Lib), former National Coal Board chairman, said a campaign to regenerate British industry was called for and it was for the Government to give a lead.

Lord HANSON (C.) said the commanding heights of British industry had been nationalised for most of his working lifetime — with devastating results which turned them into loss-makers and loaded all industry with excessive energy and transport costs.

A major way to restore manufacturing activity as actively pursued by this Government — was to place these industries in the private sector where they belonged.

Much of manufacturing industry was healthier and more competitive than it has been for 40 years.

Report's scant justice to achievement of manufacturers

TIMES DECEMBER 4 1985

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OVERSEAS TRADE

The Select Committee on Overseas Trade had concluded decisively that there was a problem so serious that not to start solving it at once was to risk a major social and economic crisis in the foreseeable future, Lord Aldington (C) said on opening in the House of Lords a debate on the report of the committee of which he is chairman.

We cannot (he went on) leave the nation's future to an imaginary auto-pilot. We have fallen behind in world competition and we have to seize control to catch up. So we call for urgent action.

The committee sought to point the way rather than produce a detailed positive plan. All its recommendations were directed to make manufacturing more competitive. Increased government spending was only recommended to match the help given to competitors by other governments or in the case of the infrastructure, to increase efficiency and reduce costs.

We put first (he continued) the need for a change in the attitude of our nation towards manufacturing and those who work in it. Manufacturing must be given a higher priority both by government and by private people.

Manufacturing output in Britain went on increasing until 1973. After some ups and downs it was nearly 12 per cent lower in 1984 than it was in 1973 despite the two previous years of recovery. In the rest of the European Community, America and Japan it was substantially higher last year than in 1973.

The lack of competitiveness (he said) is responsible both for the decline in our share of world trade and for the increase in imports of manufactured goods. We cannot sustain a growing industry unless it is competitive in the world and cannot repel import penetration unless output grows substantially.

Lord Bruce of Donington, Opposition spokesman on trade and industry, said the report had been thoughtful, moderate and factual. Consensus in Government circles had become a dirty word, as if meant a blurring of the issues.

The all-party document revealed how sensible men getting around the table could produce a report of considerable incisiveness, incisive enough to incur a pre-emptive effort by the Government to denigrate it.

The report should be set in its proper context of a non-oil deficit on the nation's balance of payment

in the past two years of £11,000 million and a report by the Shell company that output of oil within six years would progressively decrease to a point where the United Kingdom was no longer self-sufficient.

There was also the appalling fact that between three and five million people were unemployed, denied any purpose in life, dreams and hopes. Simultaneously, the rich were getting richer and the poor, poorer.

Any solution would mean a total change of attitude, not only by the people but by the Government. At present the Government was battenning itself down into the bunker hoping something might happen while indulging in a frenzied sale of public assets in order to balance the books, and secure some benefit in any future election.

Lord Young of Graffham, Secretary of State for Employment, said there was much in the select committee's analysis and recommendations with

which the Government unreservedly agreed but it did have misgivings about some parts.

The Government agreed on the need for a change of national attitude and that prosperity depended on the success of industry. It also agreed with the need for improved competitiveness, for a consistent policy towards industry, for support of innovation, the need to attract higher quality entrants into industry, the need for more investment, and the importance of increasing output by increasing exports through successful competition with overseas rivals.

But the report did not emphasize enough what had already been done and gave too much emphasis to problems which the Government regarded as important but not catastrophic.

I have to part company with the committee (he said) when they foresee a grave threat to the standard of living and the economic and political stability of the nation unless the Government intervenes to ensure the manufacturing base is stimulated in the export of manufactured goods.

That did scant justice to the achievements of manufacturers. Manufacturing production was up 31 per cent since 1981, output had increased 11 per cent in the same period and investment was up 15 per cent last year and a further substantial increase was expected in the current year.

The nation had to recognize that enterprise was the well spring of prosperity. The solution lay not in discriminating in favour of manufacturing but in increasing the competitiveness and adaptability of the whole economy.

Lord Ezra (L) said the nation was suffering from diminished competitiveness to which there was no magic solution, but it was not enough to say that it would be solved by getting wages costs per unit of production down. That was an important element but there were many others and all needed to be taken into account.

He had been appalled in recent times at the constant reduction in the relatively limited amount of funds provided to the British Overseas Trade Board. Britain was falling behind in exhibiting its products abroad.

Lord Clitheroe (C), in a maiden speech, said the key to the problem lay overwhelmingly in the recommendations which referred to the need for a change of national attitude. On the whole the severe shake-out industry had suffered over recent years was probably helping rather than otherwise if for no other reason than that it had swept away a lot of illusions.

This country's industrial management, unlike that of its competitors, had always been at the bottom of the pecking order of esteem. It had not been a magnet for people of highest potential. Public regard for industry in general was at an all-time low and there was a need to regenerate pride in it.

Lord Plowden (Ind) said many more of the best and brightest school leavers must be recruited if the decline of manufacturing industry was to be arrested and reversed. This called for much more contact between industry and the schools and the young people in them.

Lord Hanson (C) said one major way of restoring manufacturing competitiveness which the Government was actively pursuing was to place these industries in the private sector where they belonged.

Lord Greenhill of Harrow (Ind) said ministers' immediate reaction to their report was a good example of adversarial politics. There was nothing automatic about the recovery of manufacturing industry as oil declined. The fall in industrial export earnings could not be fully replaced by service industries, whose achievements must be applauded and acknowledged. The logical conclusion of this was the standard of living would be put at risk.

The timescale might be a matter of debate but they must prepare themselves for consistent policy not only for the immediate future but for the longer term.



Aldington: We call for urgent action