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FROM THE PRIVATE SECRETARY
TO THE SECRETARY OF STATE
FOR WALES

NBAN.

16 January 1987

Dear Alex

My Secretary of State promised to let the Chancellor of the Exchequer have some background briefing on the Welsh economy in advance of next Tuesday's ... debate. I am enclosing with this letter:-

- A summary of 'bull points'
- Estimates of new jobs created in Wales following acceptance of Regional Selective Assistance and Regional Development Grants
- A note on change in situations vacant advertisements in Welsh newspapers 1985-86.

... In addition I am enclosing a copy of a speech that Mr Kinnock made to the Wales CBI in Cardiff on October 31 1986 which my Secretary of State also promised to provide.

/ I am copy this letter together with Mr Kinnock's speech to David Norgrove at No 10.

Yours sincerely
Jon Shortridge

J D SHORTRIDGE

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EXTRACT FROM SPEECH GIVEN TO WALES CBI, CARDIFF, OCTOBER 31, 1986, BY RT HON NEIL KINNOCK MP, LEADER OF THE OPPOSITION

When a Government is faced by the alternatives of using resources for investment or denying itself resources by making tax cuts I believe that the priority must, wherever possible, be the tangible, targettable, measurable maximum employment and production course of investment rather than the speculative course of hoping that the tax concessions will be spent on British industry and services, generating British jobs.

Certainly, that priority of investment must apply when we are faced by the need for major infrastructural improvement both in the physical environment and in human skills. Such an investment programme, plainly necessary now to my Party, to your organisation, and to the DTI will sadly and obviously not be enough to set Britain on the long road back to industrial recovery.

Especially when the length and steepness of that road was shown all too vividly in last week's balance of payments figures. For the second month running the current account, including trade in services, was in deficit. We are now heading for a deficit this year taken as a whole, and embedded in those dreadful figures last week was the most ominous figure of all - we already have a £4 billion deficit in manufactured trade so far this year and there is still a quarter of the year to go.

The question that therefore faces all who work for recovery is how we are to pay our way in the world as oil revenues decline with falling prices and falling production unless we have a competitive manufacturing industry.

And, as you know only too well, the only true measure of competitiveness is performance in the market place at home and abroad.

And on that true measure of competitiveness our manufacturing industry, after seven years of monetarist squeeze, is far less competitive than it was in 1979.

In that seven years our share of the world market for manufactured exports has fallen by 23% and import penetration of our markets in Britain has risen by 22%.

-2-

And the outcome of these persistent trends is that, unless something is done now, British industry will be once again squeezed in the vice of recurrent balance of payments crises.

The £55 billion of oil revenues could of course have been used to lay the foundations in infrastructure, industrial capacity, research and development and education and training, so that a truly competitive manufacturing industry could take over when the oil was gone.

It wasn't and now its gone. That means that we have to resort to systematic policies for the consistent building of the industrial base, the improvement and spread of skills, the containment of costs, the dependability of demand and the advance of competitiveness.

For those purposes I have set down a three-stage programme for my Party to foster recovery in the British economy.

First, there will be a two-year emergency programme of investment in infrastructure and in training to lay the foundations for industrial growth and in the process generate jobs.

Second, there will be a five year medium-term employment strategy, at the core of which will be our commitment to the expansion of manufacturing industry - for only if manufacturing recovers its lost markets will the two year expansion in employment be sustained.

Third, our industrial development strategy will be formulated within a ten year planning horizon. We must break out of the obsession with the short term which afflicts far too much British finance, British industry, and, in these days, the economic policy of the British Government.

These three elements form an inter-dependent programme for industrial recovery.

Our situation is now so serious, the dangers so pressing, that we cannot leave industrial recovery to chance. We cannot rely on market forces alone to allocate our scarce resources efficiently - simply because markets respond to the relatively short-run and our national need is for agreed medium and long-term objectives and continuity in the effort to reach them. Government must, therefore, join with industry to formulate a clear strategy for investment and recovery. The central criterion by which that strategy must be guided must be the need to secure a trend improvement in the trade performance of our industry at home and abroad.

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-3-

At the centre of our industrial strategy will stand a completely revamped DTI and its associated Welsh, Scottish and regional activities.

Today the DTI devotes itself to the support of industry.

We want a DTI whose objective is to maintain that role but to be involved also in the CREATION of industry.

We have to learn the lessons taught by the success of the active entrepreneurial ministries which have guided and fostered industrial success in France and, most notably, in Japan.

And we can learn too from the success of the industrial development banks which have played such important roles in the modernisation of the French, German and Japanese economies.

That is why we shall establish a British Investment Bank as a first step towards developing a financial sector which is committed to and knowledgeable about the LONG-TERM modernisation and growth of British industry.

I am well aware that business people often complain that changes in the party of government have led to sharp changes in economic policy and that the uncertainty associated with these changes of direction has damaged the planning and prospects of British companies. They are not making a partisan point, they are complaining about the problems of working when someone keeps jogging your elbow or shifting the bench.

May I make what I believe to be an equally non-partisan point by saying that I believe that the failure of British Governments to place industrial policy at the very core of their economic strategy has been fundamental to that problem of discontinuity.

That is why industrial policy will be at the very centre of attention in the next Labour Government. The other components of economic policy will complement the requirements of production, rather than the other way round. That, in my view, is a matter of national priority, indeed a matter of national, industrial advance, and therefore, national economic survival.

That survival does not of course just depend upon our industry-conscious government being willing to provide new infrastructural and industrial investment, new forms of access to commercial funds and new backing for new enterprise. They are only tools. Unless they are utilised properly by people of skill and experience in concerted action they will be under-used and under-productive.

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-4-

That is why co-operation, joint-determination, is essential if we are to see those tools used by the right people in the right places at the right times.

Commercial experience and intelligence, the capabilities of science and technology, the participation of labour, are all vital ingredients in that task.

Private and public enterprises that subscribe to that effort must be consulted and supported if we are to get the advanced performance and the improving trade balance in manufactures that is the key to securing the future prosperity of our country.

This does not mean that we or anyone else can expect a vast job increase in manufacturing industry itself. Expansion does mean more jobs, of course, but to be efficient and competitive, modern manufacturing must plainly increase its labour and capital productivity. That stability or reduction in marginal unit costs obviously means better use of better machines rather than substantial recruitment. The effectiveness of manufacturing operation is, however, fundamental to the production of wealth that is essential if jobs are to be persistently created elsewhere in the economy.

And that, of course, must be the central part of all objectives.

When UK unemployment is in excess of 3.25 million and costing £22 billion to sustain we cannot as a society tolerate such a burden of poverty and waste or as an economy afford such a useless expense.

Reducing those massive costs and disabilities is a purpose directly and inextricably linked to advancing the producing and selling performance of our country.

I am committed to those tasks by action in concert between government, employers and trade unions. I would welcome your participation. We will not always agree about means or methods, we must surely concur on the purpose of gaining vitality and success for our country and our people.

ENDS