

MR SPRINGTHORPE

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cc PS/Chancellor
PS/FST
Mr Burns
Mr Middleton
Mr Unwin
Mr Corlett
Mr Turnbull
Mr Ward
Mr Folger
Miss Deyes

ADDITIONAL BRIEFING FOR PM'S QUESTIONS

No.10 have asked for additional briefing on questions arising from the Financial Secretary's Zurich speech last night.

PSBR Overrun

[Referring to the Industry Act Forecast (IAF) figure of a £11½ bn PSBR in 1980/81 the Financial Secretary commented: "It may well prove that the final outturn is even greater than this." He then stressed the difficulties of forecasting the PSBR - which is "the difference between two rest magnitudes - each in the region of £100 bn." - Mr Healey used to make much the same point].

Since the IAF was published, the November borrowing requirement figures for central and local government have been published (these were no worse than expected) and the December CGBR figure (which was higher than expected). If further bad figures emerge then clearly PSBR will overrun IAF forecast. But it would be unwise to draw firm conclusions from one month's bad data. The outturn will depend on many factors, including heavy inflows expected in January and March and we must await indication of these receipts before giving a more precise assessment of the PSBR. [CONFIDENTIAL (not for use) - Treasury forecast, which No.10 has seen, is now £13¼ bn].

A tough Budget ?

The Financial Secretary forecast nothing of the sort. As to what will be in the Budget, I cannot anticipate my RHF the Chancellor's Budget judgement. I repeat what I told the House on Tuesday: no decisions have been taken.

FST admitted the real burden of taxation ^{overall} / has increased since
the Government took Office

And we have already made - as we promised - a major switch from taxes on persons to taxes on ^{spends} ~~taxes~~
True:- but economic circumstances have been exceptional. We are dedicated to the conquest of inflation, sound money and an end to the inexorable growth in the size of the public sector. Only these can provide the basis for a lasting reduction in the burden of taxation. I have never said that progress will be easy. But we are winning.

Monetary Targets

[Reference in FT leading article "The Financial Secretary spoke of the importance of other measures of the monetary stance - the exchange rate, narrow money, the inflation rate, and so on - but stuck to broad money as 'the most useful measure ! This is an odd conclusion to an explanation of why it is misleading."]

For the purpose of the MTF, broad money (£M3) remains the relevant aggregate. But the particular problems of steering a suitable financial course in the short run is not based mechanistically on movements in £M3. The FST is quite right to draw attention to other indicators of financial stringency. Thus the November cuts in interest rates were possible because of (a) success on inflation; (b) high rates not particularly effective at this stage (because of high exchange rates, etc) in reducing demand for credit.

New Treasury forecasts

[David Blake article in the Times today].

There is always speculation about 'new' forecasts. The latest Government forecasts are those published on 24 November 1980 under the Industry Act. New Treasury forecasts will be published with the Budget.

Claw Back of this year's excess monetary growth?

F.S.T. made no categorical statement or prediction. Decisions on next year's target & monetary stance generally will be announced in Budget.

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R I G ALLEN

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15 January 1981

Next year's PSBR

FST said "no reason to suppose PSBR cannot be brought back more or less onto MTF5 track, by which I mean 3 per cent of GDP plus the automatic consequences for the public finances of GDP in 1981-82 being lower than was foreshadowed, for illustrative purposes, [in the MTF5]."

The Chancellor has indicated that he estimates that half of the excess over the Budget estimate of this year's PSBR (£8.5bn) can be attributed to the unexpected depth of the recession. It is clear from this that the level of GDP next year will be significantly lower than was envisaged at the time of the 1980 Budget, and that the PSBR is therefore likely to be significantly higher than the MTF5 indicated, after allowance for the change in the cyclical position. The actual outcome will, of course, depend on the decisions which go into the Chancellor's forthcoming Budget — and these have yet to be taken.

MR WIGGINS

cc Sir Anthony Rawlinson
Mr Littler
Mr Unwin

FST'S SPEECH

You asked for factual comments.

2. The section on public expenditure is on pages 17 and 18. There are two errors of fact:

- (i) "Total expenditure, in real terms will be very slightly higher this year (1980-81) than it was last."

The latest forecast change in the "planning total" is +2.3%.

The Chancellor said in his November statement that the outturn was likely to be $1\frac{1}{2}\%$ higher than planned in the March White Paper for this year. (That level is virtually the same as the outturn for 1979-80 given to the Treasury Committee in December).

The reference in the speech to the PSBR being higher than forecast in November could (correctly) give the impression that expenditure also is higher, and so the increase is more than $1\frac{1}{2}\%$.

- (ii) "the medium term financial strategy sets out a steadily declining trend, until by 1982-83 it [public expenditure] should be some 4 per cent lower than in 1979-80 - the year in which we took office - and $11\frac{1}{2}$ per cent lower than the planned figure we inherited from our predecessors. We are determined to keep to that path."

On a point of detail, 1982-83 should have been 1983-84: the March White Paper showed ^{falls} of 3.7% and 4.0% respectively by the two years. (General Government Expenditure - the figure quoted in the MTF5 - falls by 5% or so.)

Economic developments in the last 9 months, and the Cabinet decisions in the autumn make regaining that path unattainable.

The Chancellor said in November that the result of the recession and of the decisions then announced would be to result in a higher planning

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total for 1981-82 than planned in March (implicitly $1\frac{1}{2}$ -2%) and left the implication that the higher figures would continue into later years.

The figures now suggested for the PEWP (a submission en route to the Chancellor) show the planning total for 1982-83 virtually identical with the latest outturn figure for 1979-80. The figure for 1983-84 is $1\frac{1}{2}$ % lower.

J. M. B.

J M BRIDGEMAN
15 January 1981

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PRIME MINISTER'S QUESTIONS: THURSDAY 15 JANUARY

NEB: SIR LESLIE MURPHY'S SPEECH TO THE ROYAL INSTITUTE OF PUBLIC ADMINISTRATION

In his speech to the RIPA last night Sir Leslie Murphy was critical of the present Government's policy towards the NEB. He believed demands for its services would increase in 1981 because of the present level of profitability in the private sector and believed that it could carry out monitoring of major state holdings, such as BL, more effectively than Ministers and civil servants.

Line to take

The Government's policy has been quite clear. As my Rt Hon Friend said in his statement on the NEB on July 19 1979, when Sir Leslie Murphy was still Chairman, we favour the encouragement of private initiative and enterprise, not the promotion of public ownership. Until we have been able to restore the full vitality of the private sector, however, the NEB does have, in addition to its regional and small firms functions, a role to play in investing in high technology industries, where the returns are longer term and private industry is reluctant to invest on its own at present. As far as possible the NEB's investments should be in partnership with the private sector and its holdings should as soon as commercially practicable be disposed of to private ownership. How long the NEB has such a role to play depends not on dogma and prejudice, as Sir Leslie has suggested, but on the purely external factor of the degree to which profitability has recovered in the economy generally.

SUPPLEMENTARY QUESTIONS

Q When will a decision be announced on the new Chairman of the NEB?



A A number of names are under consideration at present but no decision has yet been taken. An announcement will be made before the end of the month when the present acting Chairman, Sir John King, is due to take over as Chairman of British Airways.

Q Did Sir Arthur Knight and other Board Members resign over a disagreement with the Government, eg over the new financial duty?

A As my Rt Hon Friend, the Secretary of State, told the House on 1 December Sir Arthur Knight resigned for personal reasons. Other Board Members have resigned because their services have been needed elsewhere. There is no disagreement between the NEB board or previous Chairman and the Government. The statement which my Hon Friend the former Under Secretary of State for Industry made on 11 December about the new financial duty was agreed in advance with the NEB and incorporates those features which they specifically requested.

Q Is responsibility for BL to be moved from the NEB to the Secretary of State?

A The question of responsibility for BL is being considered in the context of the Government's present consideration of the BL Corporate Plan.

Q Why is the present Industry Bill increasing the NEB's limit, as Sir Leslie pointed out, when the previous 1980 Industry Act reduced it?

A The increase in the NEB's limit in the present Industry Bill (which is at present a purely token £1m increase pending the outcome



of the decision on BL's Corporate Plan) is solely for BL. This does not represent any change in our policy to the NEB. As my Rt Hon Friend the Secretary of State made clear in the Industry Bill Second Reading on 1 December we wanted to give the House a full opportunity to debate the new limits for BL and Rolls Royce with new legislation, when the Government had had an opportunity to study the companies' Plans.

Lecture to be given by Sir Leslie Murphy
on Wednesday, 14th January, 1981
at the Royal Institute of Public Administration

REFLECTIONS ON THE NEB

The NEB had its origin in the White Paper issued by the Labour Government in August, 1974. This White Paper was entitled 'The regeneration of British Industry.' The first four paragraphs of the Introduction to that White Paper contained a very fair analysis of the position of British industry and concluded with the following passage:

'Industry and the Government should be partners in the pursuit of the objectives which spell success for industry and prosperity for the country. This requires a closer, clearer and more positive relationship between Government and industry.'

So far, so good. It then went on:

'The construction of that better relationship requires the development of new institutions. This White Paper sets out the Government's proposals for achieving these results.'

The two new institutions were Planning Agreements and the National Enterprise Board.

The proposals regarding Planning Agreements were received with open hostility from the CBI and from Industry at large. Planning Agreements were seen as a means by which the Labour Government could obtain a substantial degree of control over the operations of

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industrial companies. They were associated in people's minds with Mr. Benn's announced objective of obtaining control of the 25 largest industrial companies and although this objective was repudiated by Sir Harold Wilson, the suspicion remained. Planning Agreements were also opposed by industry because they were intended by the Labour Government as a method of forcing companies to accept greater participation by trade unions in strategic planning.

The White Paper also stated that the discussions between the Government and industrial companies prior to the conclusion of a Planning Agreement 'could help to identify requirements for investment funds for consideration by the NEB, if necessary by means of joint ventures with the companies.'

Thus there was, with some justification, a belief that the NEB would be an integral part of the planning agreement process. In fact the NEB distanced itself ab initio from planning agreements, but this belief persisted for some while. This was the first handicap that the NEB had to overcome.

The White Paper proposals were carried out by the Industry Act of 1975 which set out the functions of the NEB. Clause 2 (2) (c) gives as one of the functions:

'...extending public ownership into profitable areas of manufacturing industry.'

Here again is the Benn objective. Moreover, we have to remember the provisions of Clause 4 of the Labour Party Constitution:

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'To secure for the workersthe common ownership of the means of production, distribution and exchange and the best obtainable system of popular administration and control of each industry and service.'

Many people therefore regarded the NEB as a 'back door' means of nationalisation, and this was the second handicap.

The result of this was that the formation of the NEB was greeted with hostility by the CBI and by a large part of British industry. The Conservative Party announced its intention of abolishing the NEB when it returned to power.

So the NEB became another example of the results of the continuous strife between the two major parties as to how to deal with industry. In this strife, the merits of the case are ignored. The left wing of the Labour Party continues to press for more and more public ownership, ignoring the very mixed record of the publicly-owned corporations over the last 30 years. The right wing of the Conservative Party sees no merit in anything except private enterprise and market forces, ignoring the failures of the first and the gaps in the second. I must confess that I have become sick and tired of this sterile confrontation. What a relief it would be to have a Government that addressed itself objectively to find the best solution of each problem, and put away dogma and prejudice. If the debate about the Centre Party were to take us along this road, I for one would be an enthusiastic supporter.

The first task of the NEB then was to try to overcome the handicaps with which we were lumbered initially. We did this in five main ways:

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- (a) We emphasised that we would approach our tasks in a commercial fashion. We were concerned with securing an adequate rate of return on our investments, even though we recognised that we might have to wait a much longer time to secure those returns than the market would be prepared to do. We also decided that we would not go on supporting an enterprise if we could see no possibility of a viable operation emerging eventually.
- (b) We underlined the need for sound management of our subsidiary companies and refused to get involved in day-to-day management decisions.
- (c) We made it clear that the NEB had no involvement or part to play in Planning Agreements.
- (d) We refused to acquire shares in profitable companies as an end in itself. All our investments were made in fulfilment of worked-out policies - development of a strategic plan in electronics, help for small companies, Regional investments and so on. But we would not use our financial resources to buy profits.
- (e) We had no compulsory powers and would not use our financial strength to acquire companies against the wishes of the shareholders. An early example of this was the struggle between Guinness Group and White Child & Beney. At the request of the Chairman of White Child & Beney we produced an alternative scheme which would have

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frustrated the take-over of the company by the Guinness Group. Had we decided to go into the market and buy shares, we could undoubtedly have frustrated the Guinness bid, but we decided instead to leave it to the shareholders to decide which alternative they would prefer.

It was interesting that we were not put under any pressure by the Labour Government to behave differently, although this meant a very different NEB from that envisaged by Mr. Benn and Mr. Stuart Holland. In fact, one of the original members of the Board of the NEB commented to me recently that in his view the hallmark of the NEB had been its non-political approach.

How successful was this policy? I think that it did bring about a real change in attitude to the NEB from all except the right wing bigots of the Conservative Party.

Firstly, the Conservative Party itself changed its attitude. Instead of being abolished, the NEB would remain but with a substantial modification to its powers and duties.

Second, the CBI's hostility largely disappeared. I remember one meeting of NEDC in which the late Sir John Methven stated, in answer to a question, that the CBI had no problems over the NEB.

Third, the attitude of the banks and financial institutions changed. The clearing banks and some of the insurance companies entered into joint ventures with the NEB. Some of the banks, at their own request, seconded staff to the NEB in order to bring about a better understanding of how it was working.

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Lastly, we were able to establish joint ventures with some overseas companies. I well remember the first meeting I had with the representatives of the Swiss company, Brown Boveri. They were extremely apprehensive at the prospect of having the NEB as a shareholder and were very suspicious of our motives. But as time passed we became firm friends and I think that eventually they were very happy to have the NEB as a shareholder.

So, on the whole, I think that we did succeed in establishing the NEB as a businesslike, efficiently run organisation. Of course, we made mistakes. We tried to do too much too soon and as a result some of the early investment decisions were based on inadequate market research. But although, as I have said, we were not put under pressure by the Labour Government, we were conscious of the duties placed upon us by Parliament and of the very large financial resources placed at our disposal.

- In 1976 the NEB invested £73m. in 13 companies
- In 1977 it invested £200m. and had interests in 33 companies
- In 1978 it invested £359m. and had interests in 46 companies
- In 1979 it invested £252m. and had interests in 70 companies including RR and BL.

This is a very rapid rate of growth, starting from scratch, and I would have preferred to have taken it more slowly. But remember the vociferous and absurd cry from the left wing of the Labour Party that the NEB should spend £1bn. a year!

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At the time of the election in May, 1979 we had established five major roles for the NEB and I would like to discuss and comment on each of these.

The first role was to act as a state-owned industrial holding company and to try to bring about the success of the principal subsidiary companies in the Group.

I set out my views as to how the NEB approached this task in the 1978 Annual Report. A year's reflection has made no difference and I was most interested to read the following passage in Sir Arthur Knight's statement in the 1979 Annual Report:

'As to the managing of investments, I cannot improve upon the statement of my predecessor in his report last year

In spite of this, Sir Arthur Knight went on to say:

'My Board and I made it plain

I find it difficult to understand the logic of the second statement. In fact, before our resignation, the role of the NEB in relation to BL was neither illusory nor minor. Let me go over some of the action for which the NEB was responsible.

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Firstly, in regard to the approval of the plans of BL. It was the NEB that stopped the £150m. foundry programme - twice submitted by BL - because it did not consider the programme could be justified in the light of the funds available and it preferred that BL should become more reliant on outside suppliers. It was the NEB that stopped BL's plans to build a new centralised engineering centre at a projected cost of £65m. It was the NEB that reduced the funds to be allocated to BL in 1979 from the £300m. requested by BL management to £150m. The Department of Industry and Ministers were involved in none of those decisions.

And, of course, it was the NEB that removed the Chairman and Chief Executive of BL and appointed Sir Michael Edwardes instead. And although the Government's approval of that appointment was necessary, the invitation to Sir Michael was given and accepted before the request for Government approval was submitted.

Sir Michael has now established himself as a major figure in the industrial scene and has managed BL with great skill, judgment and enthusiasm. I yield to no one in my admiration for what he has done and for the personal qualities he has brought to his tasks. But I know that he would admit that at the beginning he needed the support of the NEB. The closure of Speke, for example, was only possible at the time because of the support given by the NEB to the BL management, which had not then proved itself. It says much for the wisdom and farsightedness of the four trade union leaders who were then members of the NEB Board that they were prepared to back the BL management in the difficult decisions that had to be taken.

To-day the BL management has proved itself and has put BL back on the road to viability although there is still a long way to go. But BL is still supported by public funds and is not yet ready to be returned to the private

sector as a free-standing company able to finance itself on the market. So the tasks of monitoring performance, approving plans and programmes and of appointing the Board and management still have to be performed. And at some time, a successor to Sir Michael will have to be found.

I see no ground for changing my view that this role is best performed by an industrial holding company composed of senior businessmen and trade unionists, rather than by Ministers and Civil Servants. Had it not been for the decisiveness of the NEB, I do not think that Ministers and Civil Servants would have made the management changes in BL that were essential for its future. And in the case of RR, they showed a marked reluctance to allow the NEB to take the action that the Board judged to be necessary.

I do not want to dwell on the disagreement over Rolls-Royce. The reasons why the NEB was dissatisfied with the situation and sought to make changes have been stated very clearly in the past.

Of course, the strength of the pound - which no one forecasted has made matters far worse. But the salient fact remains that RR will not be able to compete successfully with the American companies unless it can reduce its unit cost to a figure approaching theirs. We felt that the management of RR had not tackled this problem with sufficient energy and professionalism and that the very large expansion in production and sales at the prices at which business was being taken could not be justified unless this was done.

But for this system to work, two conditions are necessary. Firstly, Ministers must be prepared to allow the NEB to operate. It is much to the credit of Mr. Varley when he was Secretary of State that he did this. I contrast his attitude to that of Sir Keith Joseph, who wishes to take the decisions himself. Indeed, I well recall a conversation with the present Prime Minister when she was Leader of the Opposition. I was explaining to her my concept of the role of the NEB and of how it operated and she interrupted me to say that because taxpayers' funds were involved, Ministers must take the decisions. For good measure, she added that in her view it was impossible for a State Corporation to be run along commercial lines.

So long as Ministers hold these views then it becomes very difficult for a State holding company to discharge its role effectively.

The second condition is that the role of the NEB is accepted by the managements of its subsidiary companies.

There is a real difficulty if the Boards of the NEB's subsidiaries are not prepared to be monitored by the NEB or to accept its judgments regarding their plans and programmes. I am conscious that the distinguished businessmen appointed to the Boards of the subsidiaries often match in experience and in judgment the members of the Board of the NEB itself; this is very desirable since one wants the best Boards and managements one can get for the subsidiaries. This would not matter if the concept of a state holding company operating in the same way as an industrial holding company in the private sector were accepted. But the Chairmen of the large subsidiaries were not members of the NEB Board, as they certainly would be in the private sector, and there was no sense of a common purpose and objective as would be found in ICI or Shell. One of the reasons for this is the political controversy surrounding the formation of the NEB; another is the short time the NEB has been in existence. It takes a long time to build up traditions and a feeling of belonging to a group with common purposes and objectives.

I have also pondered the desirability of appointing non-executive directors on the Boards of the NEB's subsidiaries. I am aware that the difficulty with BL over the role of the NEB was mainly because the non-executive directors felt that it was the Board of BL that should be the place where decisions were taken subject to the necessary Ministerial approval. On balance, I remain in favour of having non-executive directors on the Boards of major subsidiaries provided that they accept that the NEB is performing a different role and is not trying to duplicate management's job. I think, however, that it is most desirable to have an interlocking Board membership - either through the Chairman or through other Board members to prevent the build-up of adversary situations.

I doubt that much of this is acceptable to the present Government at this stage, but I still believe that the need for the NEB will continue and I am looking ahead to the type of organisation and the method of operation that may evolve in a few years' time.

The second major role of the NEB was the development of an industrial strategy. We had made some progress towards this before the change of Government. Apart from automotive products, new engines and machine tools, we had a major presence in computers and electronics, and we had started to develop holdings in scientific and medical instruments, office equipment, process control electronic test and measuring instruments and off-shore engineering. We had also started investigation of biotechnology which has since matured into a substantial new investment.

We were gradually building up experienced and expert staff in these major sectors, since I am convinced that this must be the basis of a successful investment approach.

Unfortunately, the new Government doesn't believe in an industrial strategy. Indeed, I was advised by the Civil Service after the change of Government to play down the NEB's industrial strategy approach because it would be likely to be counter productive in dealings with Sir Keith Joseph.

If you study the 1978 Annual Report of the NEB, you will see that its holdings were grouped in accordance with its industrial strategy - all the computer and electronic companies together and so on.

But in the 1979 Report this was changed and the holdings were listed alphabetically. What nonsense this is. I understand the need for the change of attitudes in industry to which Mrs. Thatcher is constantly referring. I agree that inflation must be brought down; that wage and

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salary increases must be paid for by increased productivity, that we must become more competitive. But these exhortations alone are not enough; we shall fail to cure the deep-seated problems that afflict our society - unemployment, decrease in living standards, falling behind in the technological race unless we develop an effective industrial strategy.

I was a British delegate to the recent Franco-British Conference in Bordeaux. I was impressed by the comments of one of the French delegates who said that he failed to understand the attitude of successive British Governments to industry which he characterised as theoretical, dogmatic and lacking in continuity. He contrasted this with the attitude of French Governments which he said was pragmatic and inspired by a sense of the need for continuity. The French Government recently published the list of sectors to which it proposed to give priority in its industrial strategy. It was virtually identical with that listed in the NEB's 1978 Annual Report.

Some of you may have read Professor Jim Ball's article in the Financial Times on the last day of 1980. I invite your attention to the following passage:

'Practical monetarists have never supposed that policies such as those associated with the medium-term financial strategy could ever do so' (i.e. cure the problem of core unemployment). 'Their initial position rests on the argument that, unless financial and monetary control is achieved and inflation held in check, nothing will ever come right. It is a necessary but not a sufficient condition for ultimate success. To go further is to require the development of a coherent industrial strategy within the framework of the medium-term financial strategy.'

I say Amen to all that. But what chance do we have so long as Sir Keith Joseph remains Secretary of State for Industry, since he doesn't even believe in the need for an industrial strategy.

I will refer briefly to the remaining three roles of the NEB - support for small companies, support for exports and support for Regional initiatives. All these are important and I think that the NEB has indeed had a catalytic role in bringing about a much greater awareness of the need for wider bases of support for these initiatives.

I am running out of time, but I want to deal with the other changes made by Sir Keith Joseph in the 1980 Industry Act.

The NEB's duty to promote industrial democracy was repealed. I do not think that we have heard the end of this. The NEB was an example of a two-tiered Board structure. Trade unionists participated on the Board of the NEB but not on the management Boards of the subsidiaries. I found this worked very well and the presence of trade unionists on the NEB Board was valuable. They brought their own direct experience to our deliberations and this was helpful; they also were made to face the necessity for taking difficult decisions and they did not run away from them. This was very good for them. But I would not in any circumstances appoint trade unionists to the management Boards. Broad policies and strategic decisions yes, but on management matters they have a conflict of interest which in my view is insuperable.

The total borrowing powers of the NEB were substantially reduced. This was stupid. Sir Keith now has to go back to Parliament to increase them back to where they were before. How humiliating.

The old IRC function of re-organisation and reconstruction was abolished. I have mixed feelings about this. We tried to bring about change in four cases - power plant construction, telecommunications, hydraulics and industrial engines - and we failed.

We failed to persuade the companies concerned to agree to our proposals and we were not prepared to force our proposals through against opposition. In addition, we were conscious throughout that the Department of Industry quite liked that sort of activity themselves. One of the companies we failed with was Massey Ferguson. We had many discussions with that company three years ago because we realised that Perkins was being starved of the capital it needed to develop its business. Eventually we proposed a major injection of funds into Perkins in return for 51% of the equity, but we could not agree on the price.

On balance, I think it was a mistake to prevent the NEB from being involved in exercises of this kind, although we had no record of success. At least it could be a spur to the private sector to take appropriate action.

Lastly, there was the new duty of disposal of investments. Here again, I think that the Secretary of State erred in forcing disposals on the NEB irrespective of the effect this would have on its financial performance. I agree with Sir Arthur Knight that it is important for the NEB to have a proper commercial target, both for internal purposes and as an objective test of performance. I did not want to see the NEB becoming larger and larger and more difficult to manage. I agreed with the concept of returning investments to the private sector and the NEB had done so in several cases. I had no objection to being given the duty to dispose provided that the decisions were left to the NEB in the light of its other - any in my view more important - duty of achieving a rate of return broadly comparable with the average of manufacturing industry. As Sir Arthur Knight said, this can only make sense if the NEB maintains profitable investments as a means of supporting its new projects during the start-up and loss-making years.

The proposals regarding financial performance made by Sir Keith Joseph on December 11th do not seem to me to be

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an adequate substitute for the very clear financial duty established by the previous Government. Disposals are to be compared with the F.T. actuaries share index on a cumulative basis and earnings of companies retained are to be compared with the MLF loan rate.

I wonder whether the NEB had accepted these proposals before they were announced to the Standing Committee? Perhaps the acting Chairman would be good enough to tell us.

The concept of total return on investment is very familiar to anyone involved in managing an investment portfolio. But for this to make sense, the managers must be free to decide commercially when to sell and also be free to retain and re-invest the proceeds. It is a nonsense to attempt to measure performance on disposals when these are dictated by political dogma and forced through irrespective of the state of the market.

Where does all this leave us ?

I claim that, taking into account the political controversy and short time it has been in existence, the NEB has performed much better than could have been expected. It had major successes with Ferranti, Fairey and some small companies. It did not succeed with Alfred Herbert, it failed with Sinclair, British Tanners and some small companies. It showed great resolution and decisiveness in dealing with BL and RR. It took a number of important initiatives in the field of high technology, notably Inmos, Nexos, off-shore engineering and biotechnology. These new high technology companies could be of great significance to the UK's future and I was delighted to hear that Inmos had invoiced its first sales in 1980. I am still very optimistic that Inmos will justify the faith that my Board and my successors have placed in it.

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But the NEB has been severely shaken by the successive traumas which have overtaken it since the election. The principal reason for this is the attitude of the Secretary of State himself. For although on numerous occasions he tells the House of Commons that the NEB has a role - not as wide as under the Labour Government but nevertheless important - he also makes it clear that he himself does not really believe in the NEB and hopes that in time it will wither away. The effect of this, of course, is that it becomes increasingly difficult to find the calibre of staff that the NEB needs. It is a tragedy that the fine team that I built up at the NEB is fast disappearing. Of the 13 senior executives that comprised my team, only 5 are left and I wonder how long they will stay.

I am not alone in forecasting that 1981 will bring great difficulties to British Industry. I am sure that we shall see a gradual change in the attitude of the Department of Industry as more and more firms get into difficulty. I just hope that the Secretary of State will give sufficient backing and support to the NEB so that it will be able to perform satisfactorily when its services are more and more in demand.

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