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JU355

Secretary of State for Trade and Industry

| September 1983

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W Rickett Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Willie

As promised, I enclose my Secretary of State's two papers for the Prime Minister's meetings next week.

Yours sincerely,

Jonathan Spencer

JONATHAN SPENCER
Private Secretary

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21 SEP 1983





10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Jonathan,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for Trade and Industry would provide papers for the discussion at Chequers under the following headings:

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?
2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Mrs. Thatcher particularly hopes that each paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that these papers are sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that these papers be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, without any consultation outside the Department. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above papers, you do not disclose their occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

Yours sincerely,

Jonathan Spencer, Esq.,
Department of Trade & Industry.

Michael Scholar

RESTRICTIONS ON WEALTH CREATION

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Department of Trade and Industry

RESTRICTIONS ON WEALTH CREATION

I Maintaining our sense of priorities

This paper explores what more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy.

It interprets "restrictions" in a wide sense.

2 It sets out a number of detailed proposals which can make a difference to our wealth-creating sector at the margin. But I think it important to say at the outset that these proposals are of small importance compared with the "big things" that the Government is already doing. Keeping down inflation and interest rates, and controlling the burden of public spending are policies which make a fundamental difference to the climate in which the wealth-creating sector attempts to grow.

3 We should not allow ourselves, I think, to become too engrossed in the search for novel ideas. There are some good ideas around, and we have studied most of them before at some time or other. It is right to review them again and to do more work on the most promising. But the most important thing is to be sure that we are still pursuing our main policy objectives, and if necessary to increase our efforts on those.

4 We are under great pressure from commentators to find "new things" to do in our second term. We should not be led astray by that. The novelty of this Government is its determination to pursue its policies unflinchingly to fruition.

5 The measures discussed in this paper will impact directly or indirectly on corporate profitability. This has fallen sharply since the 1960s and in real terms became negligible (on average) by the late 1970s. It has recovered somewhat in the last two years but still compares unfavourably with profitability in the USA, Japan and many European countries.

An improvement in profitability is a prerequisite for sustained economic recovery.

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II Public expenditure and interest rates

6 Probably the two most substantial restrictions on the wealth-creation in the private sector are high interest rates and the proportion of our GDP pre-empted by the public sector. So maintaining tight fiscal policies and continuing to attack the problem of public spending must remain our first priorities. Some money spent by Government can contribute to wealth creation eg ^{some} expenditure on improving the nation's infrastructure. But even that money has either to be raised from taxation, adding to the burden on the private sector, or by borrowing in competition with it.

Since 1979/80, the proportion of GDP accounted for by public expenditure has risen from 40½% to 44%. Expenditure on goods and services barely changed proportionally over that period. Higher social security payments were, of course, the main factor. So today, a higher proportion of our national wealth is being spent relatively unproductively. Transfer payments apart, money spent by government is likely to be less efficient at creating either wealth or jobs than money spent by the private sector, and it tends to flow into areas where the unions still enjoy greatest monopoly power and where they most successfully operate restrictive practices.

7 We need to state clear objectives and stand by them: we aim to reduce the proportion of our wealth pre-empted by public spending and to minimise the pressure on interest rates. If we have clear objectives much else will follow. Once the Government has a clear view of the path of public expenditure its policy towards, for example, public sector pay, becomes a matter of necessity. To state clear objectives imposes a discipline on Government which actually makes governing easier.

8 In the case of defence we shall soon face the decision as to whether to continue to increase expenditure in real terms beyond

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1985/86. Defence spending can of course contribute to growth inasmuch as it comprises orders for British companies, or spin-off for British technology. But much defence expenditure goes into overheads, orders from abroad and research with little civil spin-off. In any case we need to improve the international marketability of defence products (see Paper ~~Two~~¹⁹). Strenuous efforts are required to minimise the extent to which defence spending represents a diversion of resources from the wealth-creating sector and a subsidy to apparently efficient companies that blunts their determination to exploit civil markets.

9 If there is to be any shift in the balance of spending, public opinion will need to be educated. We require "consensus", not in the sense of an amalgam or mid point of what people presently think, but in the sense of public opinion educated into a full understanding of the problem and so willing to support the Government's policies for dealing with it.

10 The public is still in the mood for decisive action. Public opinion can be educated as we have shown in the past. We need now - in our first year - to do what we fought shy of at the time of the CPRS report : to set out the problem of public spending, get it discussed, allow suggested solutions to emerge, and develop our policies in the light of changing attitudes.

11 My own Department contributes to the burden of public spending through payments to loss-making nationalised industries and through regional assistance. Both of those must be reduced. These are discussed in Paper ~~Two~~¹⁹.

III Trade Union power

12 Another important restriction on wealth-creation is the influence of the trade unions in maintaining overmanning, demarcations and other rigidities, in disrupting work through stoppages and in maintaining upward pressure on pay. These effects are felt directly in the wealth-creating sector, but also indirectly through the additional costs imposed on it by government and state-owned suppliers. Norman Tebbit is tackling the legal aspects of trades union powers and immunities. We need also to consider how our policies towards the state sector can contribute to loosening these restrictions. It is very dangerous, for example, to entrench the monopoly position of the NCB by banning coal imports. Without other measures, this simply increases the bargaining power of the NUM.

13 A part of this is to resist excessive pay claims as we have done in the civil service and NHS. We should take every opportunity to demolish the still widely-held notion that moderate wage settlements now represent some kind of "sacrifice" that must be made up later. We should also aim to introduce competition into all our presently nationalised industries, even where it is not possible to introduce private capital, to decentralise them, and to encourage local wage bargaining.

IV Nationalised industry costs

14 Gas and electricity prices play their part in industrial overheads, and to the extent that they are avoidably high represent a restriction on wealth-creation. I believe that we can only make them more efficient and responsive in the long term by privatising them and subjecting them, wherever possible, to competition. We should face up to the difficulties now. This is, of course, for Peter Walker to propose, but I would make just three points :

- a) We should take on the argument that privatising "natural monopolies" like BT, gas and electricity simply substitutes a private monopoly for a public one. Provided the regulatory framework is right, the introduction of private capital should mean a massive extension of accountability for the organisations. As well as the requirements of the Companies Act, they will be scrutinised by the banks who at present rely on the government's guarantee and by millions of shareholders.
- b) Where a fully competitive structure cannot be achieved, some benefits can still be secured by privatising region by region. Customers would then have at least a point of comparison on service and price. Once privatised, the separate companies based on the regions of the nationalised industries could compete for some new business outside their original territory. (The gas and electricity industries have an existing regional structure which did not exist in BT where its introduction would have delayed privatisation by several years).
- c) Where early full-scale privatisation is not feasible, other measures to provide competition or decentralisation may be worthwhile.

15 The coal industry adds substantially to the burden on industry, both because it is a drain on the public purse, and because its inefficiency contributes greatly to higher electricity costs and coal costs. This is for Peter Walker too, but I believe there are better opportunities than before to allow coal imports and to break down the NCB into regions which genuinely compete each other in the national (and international) marketplace - an opportunity not available on the same scale to the industries with massive distributive overheads.

V Taxation (including national insurance)

16 Corporation tax. A change in CT could substantially improve the attraction of capital investment and open up the prospect of recovery led by investment not demand. Although there were consultations on the basis of a lengthy Green Paper in 1981, I hope that Nigel Lawson will consider the case for a fundamental review of this tax. It is levied at a rate so high that it is a powerful disincentive to investment. Government has recognised that and so introduced a series of exemptions and tax incentives to encourage investment. As a result we now have a horrendously complex tax, and business has accumulated £40 billion of unused tax allowances. It is probably time that we moved to a much simpler tax levied at a lower rate. If the effect on the profits of the banks would be unwelcome, this should be dealt with by special measures. More immediately, I would hope that Nigel Lawson might reconsider :

- a) switching from an imputation to a flow-of-funds system of assessment. Companies which are growing fast presently pay CT on their profits even if those are being ploughed back to finance expansion. (This proposal was, of course, considered and rejected by the last Chancellor).
- b) Extending capital allowances to buildings used for development work (as now available on research buildings) and 100% capital allowances on patents (as now on plant and machinery). That would stimulate innovation.

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17 Personal taxation. Our tax policies should encourage the growth of both self-employment and small businesses. The Inland Revenue's attempts to drive the self-employed into employed status wherever possible seems inconsistent with our general policy and I hope that Nigel Lawson will review it. There is obviously a case for reducing the top rate of income tax on earnings to 50 per cent. However, I believe that we can do more to motivate management by providing greater incentives to share ownership, which I discuss in Paper Two.

18 National insurance surcharge. Its abolition would cost about £800 million and remove that burden from the cost of employment.

19 National insurance contributions. If employment creation is one of our highest priorities, we should avoid increasing the employer's nic further. It's always tempting to load increases onto the employer rather than the employee, but there is a price to be paid in damage to employment.

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VI Legislative and administrative burdens on enterprise

20 Planning. There is little pressure from industry to lighten the burden of environmental, safety or consumer protection legislation. Some of these "burdens" can actually stimulate innovation eg. requiring new materials to replace asbestos; US requirements for vehicle fuel economy and exhaust pollution control. Admittedly, the enforcement authorities are sometimes too inflexible in meeting industry's changing needs e.g. some high technology companies find it difficult to obtain planning permission for specialised accommodation. Steps have already been taken to improve the Town and Country Planning procedures, and further work is in hand under Patrick Jenkin. I may also press him to make his Department show greater sympathy towards small companies. We all regret the long delays and high costs caused by major planning inquiries. I understand Patrick is considering reforms. The need to balance the sometimes conflicting demands of commercial and aesthetic considerations must be borne in mind.

21 Building Controls. There is is a general feeling that the building control and fire safety regulations place an undue burden on small firms because inspectors require expensive last minute alterations to buildings under construction. I have not found evidence that this is a general problem. If evidence comes to light we should be ready to act. In general it does not seem that there is a case for major changes in the building control system as it will operate after the Housing and Building Control bill comes into force.

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22 Burdens on small businesses. It might be possible to give some more exemptions to small businesses. The cost of compliance of VAT is a major complaint of small firms. Not only is the cost substantial, it is highly regressive. This increases small firms' competitive disadvantage against larger firms e.g. in retailing, where large retailers also enjoy favourable discounts. There is no easy solution. An increase in the turnover exemption limit, beyond what is required to keep pace with inflation, is prevented by EC regulations. But some tapering of exemption provisions or a move to annual accounting for small firms are possibilities although not all small firms' organisations favour the latter.

23 Contracting out. I hope that we shall also press ahead with contracting out the services required by local and central government. Legal services, accounting, computing, organising pay, typing, design, architects services - these and many others offer enormous scope for private enterprise. Contracting out can give a great boost to smaller companies, and help to reduce the cost of government.

24 Merger control. The present £15 million assets criterion at which the merger control provisions of the Fair Trading Act operate could be raised to reduce the large number of mergers which have to be evaluated by the Office of Fair Trading and which raise no competition or other public interest issues. As the alternative 25% market share criterion would be retained, the assets criterion could be raised substantially.

VII Job opportunities and the availability of labour

25 The availability of resources (especially skilled labour including managers) and the mobility and adaptability of resources as demand and technology change, are major influences on wealth creation. The UK's performance has been seriously deficient. This may be due to cultural factors as much as to economic factors in which case there is a limit to possible Government action. A more positive attitude in the community to change, whether the acquisition of new skills or a move to a new location, is required. A major change in attitudes towards wealth-creation in the educational world, especially the schools, is overdue while the shift toward engineering and technology in higher education needs to be accelerated.

26 Skills. We have already taken an important step towards improving skills in our workforce through the New Training Initiative, particularly by replacing time-serving with tested standards of achievement. We need now to pay particular attention to management and other adult training. Some assistance for management development is provided by the MSC, the DES and my Department. But there is scope for us to do more (see Paper 19).
~~Two)~~

27 Particular measures to create employment. These proposals fall outside the area of my responsibility, but could perhaps improve employment opportunities :

- a) Abolish remaining wages councils. As an example, to take on a 16 year old sales assistant in central London an employer must pay £67.97 for a 39 hour week, and a premium of £2.72 if that involves Saturday working.

- b) Reduce Sunday and other hours-of-trading restrictions.
That could help provide new opportunities for part-time work and reduce a source of irritation for tourists. The Home Office are studying this.
- c) Take further action to encourage part-time work.
For the older and long-term unemployed the greatest problem is often frustration and a sense of futility rather than money. We should re-examine carefully all opportunities for unemployed people to be encouraged to take on small amounts of part-time work through raising the level of "disregarded" income. This could be particularly useful to voluntary organisations.
- d) Encourage private road building by paying royalties.
Studies are underway on this subject. The constructor pays for the road and recovers his investment through an annual royalty. The difficulty is, of course, to persuade contractors to take a genuine risk. In principle, the scheme would allow us to build more roads today, so boosting employment in the short-term and providing Britain with an improved infrastructure. The roads would probably be built better and faster. But we might end up by paying more for them.

Consequences?

28 Labour mobility. We should consider the following proposals to improve labour mobility :

- a) The unfair dismissals legislation. An employee cannot bring a complaint against an employer of fewer than 20 people unless he has been employed by him for more than two years. Norman Tebbit might consider increasing those thresholds to, say, 50 employees and three years.

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- b) The transferability of private pension rights :
Changes in this area will take many years to effect, but we should consider how great a change we should like to see whether by :
- i) legislating to ensure that preserved pensions are increased in line with pensions in payment (though this would impose costs on the employer, the employees the pensioners); or
 - ii) giving the right to new employees to opt out of the employer's scheme and to require him to contribute as though they had not done so; or
 - iii) allowing the "early-leaver" to enhance his own pension arrangements by making extra contributions which would attract tax relief; or
 - iv) moving towards the unitisation of pension funds so that each employee would know the value of his accumulated stake in the fund and could withdraw it on leaving.
- c) Housing policies also play an important part in labour mobility. Home-owners are more mobile and more highly motivated. I am sure that Patrick Jenkin and Ian Gow will consider how we can accelerate the growth of home-ownership by every possible means. I hope that they will also consider again the decontrol in rents in the private sector at least for new lettings, and the abolition of phasing of rent increases. It would not only somewhat improve the mobility of labour but also give an important signal to the building industry.

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VIII Finance for business

29 Lack of finance for small firms and of venture capital remain the main gaps in the UK capital market. A substantial proportion of personal wealth in the UK is in the form of three assets which receive privileged tax treatment compared with investment in equities, (namely owner occupied houses, life insurance and pension funds.) Institutional investors have grown to replace the private investor but their investment policies tend not to favour small companies.

30 I hope that Nigel Lawson will consider :

- a) Removing tax barriers to the creation of small firm investment companies. Such companies could be quoted. That should go a long way to solving the marketability problem of the underlying unquoted company shares. Tax relief would be available to the investor earlier ie on buying the SFIC share itself.
- b) Extending the period of the small firm loan guarantee scheme if its evaluation justifies it.

IX Conclusion

31 The main restrictions on wealth creation today are the same as those we identified before 1979 : high public expenditure and in part as a consequence, high interest rates, trades union power and restrictive labour practices, nationalised industry costs, high taxation of companies and individuals, and lack of skills and mobility amongst the workforce. Our policies developed in the period before 1979 and pursued consistently since have been addressed to these problems. We have made excellent progress on a number of them and could go further - for example, on taxation - but only when resources allow. The impact of regulation on business in the strict sense of controls is limited.

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We have already swept away a number of the worst examples. It is difficult to predict how our regulations might affect new technologies or areas of economic activity. We must be vigilant and move swiftly to remove the restrictions when they become apparent, as we did with cable. For the moment, the most important thing is to maintain our present economic policies, and make such other changes as suggested in this paper as and when we can.

Department of Trade and Industry.

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Second Draft of Paper One

RESTRICTIONS ON WEALTH CREATION

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- IV Nationalised industry costs 14-15
- In order to reduce their impact on business, we need to press on with introducing competition and privatisation especially in gas, electricity and coal.



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It interprets "restrictions" in a wide sense.

2 It sets out a number of detailed proposals which can make a difference to our wealth-creating sector at the margin. But I think it important to say at the outset that these proposals are of small importance compared with the "big things that the Government is already doing. Keeping down inflation and interest rates, and controlling the burden of public spending are policies which make a fundamental difference to the climate in which the wealth-creating sector attempts to grow.

3 We should not allow ourselves, I think, to become too engrossed in the search for novel ideas. There are some good ideas around, and we have studied most of them before at some time or other. It is right to review them again and to do more work on the most promising. But the most important thing is to be sure that we are still pursuing our main policy objectives, and if necessary to increase our efforts on those.



4 We are under great pressure from commentators to find "new things" to do in our second term. We should not be led astray by that. The novelty of this Government is its determination to pursue its policies unflinchingly to fruition.

5 The measures discussed in this paper will impact directly or indirectly on corporate profitability. This has fallen sharply since the 1960s and in real terms became negligible (on average) by the late 1970s. It has recovered somewhat in the last two years but still compares unfavourably with profitability in the USA, Japan and many European countries. An improvement in profitability is a prerequisite for sustained economic recovery.

II Public expenditure and interest rates

6 Probably the two most substantial restrictions on the wealth-creation in the private sector are high interest rates and the proportion of our GDP pre-empted by the public sector. So maintaining tight fiscal policies and continuing to attack the problem of public spending must remain our first-priorities. Some money spent by Government can contribute to wealth creation eg expenditure on improving the nation's infrastructure. But even that money has first to be raised from taxation and so in the first instance adds to the burden on the private sector.



Since 1979/80, the proportion of GDP accounted for by public expenditure has risen from 40½% to 44%. Expenditure on goods and services barely changed proportionally over that period. Higher social security payments were, of course, the main factor. So today, a higher proportion of our national wealth is being spend relatively unproductively. Money spent by government is likely to be less efficient at creating either wealth or jobs than money spent by the private sector, and it tends to flow into areas where the unions still enjoy greatest monopoly power and where they most successfully operate restrictive practices.

7 To reduce the proportion of our wealth pre-empted by public spending and to minimise the pressure on interest rates we need to state clear objectives. If we have clear objectives much else will follow. That was the strength of the MTFS. Once the Government had a plan, its policy towards, for example, public sector pay, became a matter of necessity in order to meet the plan. To state clear objectives imposes a discipline on Government which actually makes governing easier.

8 In the case of defence we shall soon face the decision as to whether to continue to increase expenditure in real terms beyond 1985/86. Defence spending can of course contribute to growth inasmuch as it comprises orders for British companies, or spin-off for British technology. But much defence expenditure goes into overheads, orders from abroad and



research with little civil spin-off. Due regard will have to be paid to these matters. In any case we need to improve the international marketability of defence products (see Paper Two). Otherwise defence spending will continue to represent a diversion of resources from the wealth-creating sector towards inefficient economic activity.

9 If there is to be any shift in the balance of spending, public opinion will need to be educated. We require "consensus", not in the sense of an amalgam or mid point of what people presently think, but in the sense of public opinion educated into a full understanding of the problem and so willing to support the Government's policies for dealing with it.

10 The public is still in the mood for decisive action. Public opinion can be educated as we have shown in the past. We need now - in our first year- to do what we fought shy of at the time of the CPRS report : to set out the problem of public spending, get it discussed, allow suggested solutions to emerge, and reveal our policies.

11 My own Department contributes to the burden of public spending through payments to loss-making nationalised industries and through regional assistance. Both of those must be reduced. These are discussed in Paper Two.



III Trades Union power

12 Another important restriction on wealth-creation is the influence of the trades unions in maintaining overmanning, demarcations and other rigidities, and in disrupting work through stoppages. These effects are felt directly in the wealth-creating sector, but also indirectly through the additional costs imposed on it by government and state-owned suppliers. Norman Tebbit is tackling the legal aspects of trades union powers and immunities. We need also to consider how our policies towards the state sector can contribute to loosening these restrictions.

13 A part of this is to resist excessive pay claims as we have done in the civil service and NHS. We should also aim to introduce competition into all our presently nationalised industries, even where it is not possible to introduce private capital, to decentralise them, and to introduce local wage bargaining.

IV Nationalised industry costs

14 Gas and electricity prices play their part in industrial overheads, and to the extent that they are avoidably high represent a restriction on wealth-creation. I believe that we can only make them more efficient and responsive in the long term by privatising them and subjecting them, wherever possible, to competition. We should face up to the difficulties now. This is, of course, for Peter Walker to propose, but I would make just two points :



- a) We should take on the argument that privatising "natural monopolies" like gas and electricity simply substitutes a private monopoly for a public one. Private capital brings with it bankers and shareholders who will exert commercial pressures on the industries
- b) We can stimulate some of the effects of competition by privatising region by region. Customers would then have at least a point of comparison on service and price. Once privatised, there is no reason why the separate companies based on the regions of the nationalised industries should continue to be restricted by geography. They could compete for new business anywhere. Gas and electricity have an existing regional structure which did not exist, for example, in BT.

15 The coal industry adds substantially to the burden on industry, both because it is a drain on the public purse, and because its inefficiency contributes greatly to higher electricity costs and coal costs. This is for Peter Walker too, but I believe there are better opportunities than before to :



- a) allow coal imports
- b) break down the Coal Board into regions
- c) encourage the development of private mining.

V Taxation (including national insurance)

16 Corporation tax. A change in CT could substantially improve the attraction of capital investment and open up the prospect of recovery led by investment not demand. This tax is surely due for a major review. It is levied at a rate so high that it is a powerful disincentive to investment. Government has recognised that and so introduced a series of exemptions and tax incentives to encourage investment. As a result we now have a horrendously complex tax, and business has accumulated £40 billion of unused tax allowances. It is probably time that we moved to a much simpler tax levied at a lower rate. Even if that means that, for example, the banks produce higher profits, we should pursue this course, since the banks are likely to invest the money more effectively in wealth-creation than is the Government. More immediately, I would hope that Nigel Lawson might again consider:



- a) Switching from an imputation to a flow-of-funds system of assessment. Companies which are growing fast presently pay CT on their profits even if those are being ploughed back to finance expansion. (This proposal was, of course, considered and rejected by the last Chancellor).

- b) Extending capital allowances to buildings used for development work (as now available on research buildings) and 100% capital allowances on patents (as now on plant and machinery). That would stimulate innovation.

17 Personal taxation. Our tax policies should encourage the growth of both self-employment and small businesses. The Inland Revenue's attempts to drive the self-employed into employed status wherever possible seems inconsistent with our general policy and I hope that Nigel Lawson will review it. I hope that he will also consider sympathetically the problem of small businessmen who put all their spare money into their business with a view to selling it to provide for their retirement. Their income from the sale qualifies for investment income surcharge, whereas the employed person's income from a pension scheme is taxed as earned income. There is obviously a case for reducing the top rate of income tax on earnings to 50 per cent. However, I believe that we can do more to motivate management by providing greater incentives to share ownership, which I discuss in Paper Two.



18 National insurance surcharge. Its abolition would cost about £800 million and remove that burden from the cost of employment.

19 National insurance contributions. If employment creation is one of our highest priorities, we should consider reducing employers' nic's rather than income tax.

VI Legislative and administrative burdens on enterprise

20 Planning. There is little pressure from industry to lighten the burden of environmental, safety or consumer protection legislation. Some of these "burdens" actually stimulate innovation. Admittedly, the enforcement authorities are sometimes too inflexible in meeting industry's changing needs e.g. some high technology companies find it difficult to obtain planning permission for specialised accommodation. Steps have already been taken to improve the Town and Country Planning procedures, and further work is in hand under Patrick Jenkin. I may also press him to make his Department show greater sympathy towards small companies. We all regret the long delays and high costs caused by major planning inquiries. I understand that Patrick is considering reforms. In general, however, there is no evidence that the planning system operates significantly and systematically to inhibit wealth creation.



21 Building Controls. There is a general feeling that the building control and fire safety regulations place an undue burden on small firms because inspectors require expensive last minute alterations to buildings under construction. I have been unable to find proof of these allegations. In general it does not seem that there is a case for major changes in the building control system as it will operate after the Housing and Building Control Bill comes into force.

22 Burdens on small businesses. It might be possible to give some more exemptions to small businesses :

- a) The statutory annual audit could be abolished for small firms as allowed by the EC Fourth Directive on Company Accounts. This would require legislation. The accounting systems of many small firms are far from adequate however and there could be disadvantages if the result was a cutback in firms' own accounting.



- b) The cost of compliance of VAT is a major complaint of small firms. Not only is the cost substantial, it is highly regressive. This increases small firms' competitive disadvantage against larger firms e.g. in retailing, where large retailers also enjoy favourable discounts. There is no easy solution. An increase in the turnover exemption limit, beyond what is required to keep pace with inflation, is prevented by EC regulations. But some tapering of exemption provisions or a move to annual accounting for small firms are possibilities although not all small firms' organisations favour the latter.

23 Contracting out. I hope that we shall also press ahead with contracting out the services required by local and central government. Legal services, accounting, computing, organising pay, typing, design, architects services - these and many others offer enormous scope for private enterprise.

Contracting out can give a great boost to smaller companies, and help to reduce the cost of government.

24 Merger control. The present £15 million assets criterion at which the merger control provisions of the Fair Trading Act operate could be raised to reduce the large number of mergers which have to be evaluated by the Office of Fair Trading and which raise no competition or other public interest issues. As the alternative 25% market share criterion would be retained, the assets criterion could be raised in line with inflation or possibly even further.



VII Job opportunities and the availability of labour

25 The availability of resources (especially skilled labour including managers) and the mobility and adaptability of resources as demand and technology change, are major influences on wealth creation. The UK's performance has been seriously deficient. This may be due to cultural factors as much as to economic factors in which case there is a limit to possible Government action. A more positive attitude in the community to change, whether the acquisition of new skills or a move to a new location, is required. A major change in attitudes towards wealth-creation in the educational world, especially the schools, is overdue while the shift toward engineering and technology in higher education needs to be accelerated.

26 Skills. We have already taken an important step towards improving skills in our workforce through the New Training Initiative, particularly by replacing time-serving with tested standards of achievement. We need now to pay particular attention to management and other adult training. Some assistance for management development is provided by the MSC, the DES and my Department. But there is scope for us to do more (see Paper Two).



27 Particular measures to create employment. These proposals fall outside the area of my responsibility, but could perhaps improve employment opportunities :

- a) Abolish remaining wages councils. As an example, to take on a 16 year old sales assistant in central London an employer must pay £67.97 for a 39 hour week, and a premium of £2.72 if that involves Saturday working.

- b) Abolish Sunday and other hours-of-trading restrictions. That could have a particular impact on providing new opportunities for part-time work.

- c) Take further action to encourage charitable work. For the older and long-term unemployed the greatest problem is often frustration and a sense of futility rather than money. We should re-examine carefully all opportunities for unemployed people to be encouraged to take on charitable work through tax or other incentives.



- d) Encourage private road building by paying royalties. Studies are underway on this subject. The constructor pays for the road and recovers his investment through an annual royalty. The difficulty is, of course, to persuade contractors to take a genuine risk. In principle, the scheme would allow us to build more roads today, so boosting employment in the short-term and providing Britain with an improved infrastructure. The roads would probably be built better and faster. But we might end up by paying more for them.

28 Labour mobility. We should consider the following proposals to improve labour mobility :

- a) The unfair dismissals legislation. An employee cannot bring a complaint against an employer of fewer than 20 people unless he has been employed by him for more than two years. Norman Tebbit might consider increasing those thresholds to, say, 50 employees and three years. There may even be a case for scrapping the legislation.



b) The transferability of private pension rights :

Changes in this area will take many years to effect, but we should consider how great a change we should like to see whether by :

- i) legislating to ensure that preserved pensions are increased in line with pensions in payment (though this would impose costs on the employer, the employees the pensioners); or
- ii) giving the right to new employees to opt out, of the employer's scheme and to require him to contribute as though they had not done so; or
- iii) allowing the "early-leaver" to enhance his own pension arrangements by making extra contributions which would attract tax relief; or
- iv) moving towards the unitisation of pension funds so that each employee would know the value of his accumulated stake in the fund and could withdraw it on leaving.



- c) Housing policies also play an important part in labour mobility. Home-owners are more mobile and more highly motivated. I am sure that Patrick Jenkin and Ian Gow will consider how we can accelerate the growth of home-ownership by every possible means. I hope that they will also consider again the decontrol in rents in the private sector at least for new lettings, and the abolition of phasing of rent increases. It would not only somewhat improve the mobility of labour but also give an important signal to the building industry.

VIII Finance for business

29 Lack of finance for small firms and of venture capital remain the main gaps in the UK capital market. A substantial proportion of personal wealth in the UK is in the form of three assets which receive privileged tax treatment compared with investment in equities, namely owner occupied houses, life insurance and pension funds. Institutional investors have grown to replace the private investor but their investment policies tend not to favour small companies.



30 I hope that Nigel Lawson will consider these proposals :

- a) Make the small firm loan guarantee scheme permanent. Although it involves a contingent liability of £200 million it fulfils a vital need of small firms.

- b) Help to establish small firm investment companies. Such companies could be quoted. That should go a long way to solving the marketability problem of the underlying unquoted company shares. Tax relief would be available to the investor earlier ie on buying the SFIC share itself.

- c) Help to establish a readier supply of medium term risk finance. We could revive the idea of zero coupon and deep discounts bonds with attractive tax treatment.



IX Conclusion

31 The main restrictions of wealth creation today are the same as those we identified before 1979 : high public expenditure and in part as a consequence, high interest rates, trades union power and restrictive labour practices, nationalised industry costs, high taxation of companies and individuals, and lack of skills and mobility amongst the workforce. Our policies developed in the period before 1979 and pursued consistently since have been addressed to these problems. We have made excellent progress on a number of them and could go further - for example, on taxation - but only when resources allow. The impact of regulation on business in the strict sense of controls is limited. We have already swept away a number of the worst examples. It is difficult to predict how our regulations might affect new technologies or areas of economic activity. We must be vigilant and move swiftly to remove the restrictions when they become apparent, as we did with cable. For the moment, the most important thing is to maintain our present economic policies, and make such other changes as suggested in this paper as and when we can.

ENCOURAGING GROWTH

- | | | |
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ENCOURAGING GROWTH

This paper examines what the Government can do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology.

I Background: Where to look for growth

2 The first thing is to try to understand from where growth comes. Total UK output is now some 6% above its 1975 level. Output has been growing faster than that in services, public utilities, agriculture and North Sea oil. In services it grew by 8% between 1975 and 1981, and in manufacturing it fell by 11%. Employment in services (including government) rose by 5%, and in manufacturing it fell by 19%.

3 In manufacturing, employment fell in all sectors including those that showed considerable growth in output. For example, electronics output grew by 38% while employment fell by 13%. In the sectors with declining output, decreases in employment and output were broadly similar in most cases. Amongst the services, employment growth was strongest amongst the financial and other business services and in sport. Amongst some of the others there was a fairly pronounced fall in employment eg. in food and drink wholesaling and retailing.

4 The broad definitions of sectors mask very considerable variations within sectors and between companies. For example, UK production in the broad electrical engineering sector in 1982 was no higher than it was in 1979. But within this, electronic components rose by 10% over the period; telecommunications by 21%; computers by 22%. By contrast, production of domestic electrical appliances fell by 16%. A survey of 18 UK computer equipment manufacturers shows sales growth (current prices) over three recent years varying from under 30% to over 1700%. Many examples can be found of individual companies within traditionally 'declining' sectors doing well; for instance several companies in the textiles sector, which declined by 28.6% during 1975-81, have featured in the Queen's Award for Export lists in recent years.

5 Comparing the growth or decline of UK manufacturing sectors with world growth rates by sector, the pattern is similar e.g. both in the UK and the world we find electrical machinery doing best, basic metals doing least well. But the UK growth rates are much lower than elsewhere (in fact generally negative). This suggests that growth is being held down in all sectors. We should therefore examine what factors depress UK manufacturing as a whole.

6 Growth in manufacturing seems to be positively associated with human capital as measured by the proportion of professional and technical staff in the workforce. In general the higher the better.

7 It is often argued that small firms will be the main sources of employment growth in the future. It is important to encourage this dynamic element in the economy. But British evidence shows output and employment growth among small firms is bound to be a slow process; many new businesses will (and should!) die; and many small firms will not wish to expand rapidly or at all. We should be cautious about expecting too much growth here.

8 There is evidence that successful growth strategies share a number of common characteristics. An analysis of the 'Fortune 500' firms in the USA, admittedly dominated by manufacturing, highlights :

(a) Responding to the market

Successful firms pay close attention to their markets. They are able to identify the variety and changing pattern of customers needs, often through close links with distributors. Management expertise in marketing, purchasing and quality control are all critical.

(b) Flexible organisation

To respond quickly to new or changing markets, growing firms often adopt a flexible organisation. Product design can readily be modified; manufacturing systems can be re-shaped; and there is some more anecdotal evidence that smaller units, even within larger firms, can be managed more efficiently. Design, production engineering, and employee relations are important management skills.

(c) Building on technological strengths

The best financial performance among these firms was shown by companies diversifying into products using a similar technology, capitalising on their experience.

II The balance between manufacturing and service industries

9 We obviously must pursue policies which benefit both the manufacturing and service industries. Manufacturing is still an extremely important element in our GDP, but it is unlikely that it can provide increased employment. Even our successful manufacturing sectors seem able to expand output whilst shedding labour. Any increases in employment are more likely to occur in the services sector. We must therefore ensure, at least, that our policies do not discriminate against services, which at present the tax system does.

10 Public attitude to manufacturing. There is a widely-held misconception that a nation's economic "virility" depends on its manufacturing industries, and that dependence on service industries is a characteristic of second-rate countries. We must reject that notion absolutely. Some people even argue that the economies of the more advanced nations will in time evolve beyond manufacturing industry, and something of that process can be observed today around the world. The misconception

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could be damaging for us. For example, the Opposition seized on our trade deficit in manufactures as an important indicator of economic failure. It is no such thing. We need to work on public opinion - as we have done to alter perceptions on unemployment - and guide it towards accepting an economy more oriented towards services.

III Factors affecting UK performance

11 Interest rates, the Exchange rate and Exports

We must continue our efforts to bring our real interest rates down. they are high and deter investment. The UK's effective exchange rate is still well above the low point reached in March 1983. Companies frequently contrast Japan's combination of high growth, a weak Yen and low real interest rates, with the UK position of low growth, a relatively highly valued currency and high real interest rates. Many of them argue that a fall in both our exchange and interest rates would do more than anything else to stimulate growth. (Export opportunities are critical, see paras 28-32). Major exchange rate fluctuations can be damaging to industry but I would not advocate attempts to engineer a lower exchange rate, nor would I like to see interest rates raised to prevent it falling.

12 British "craftsmanship". The changes required to improve our economic performance have been made more difficult because many people in industry still believe that we are a craft-based economy. The quality of British craftsmanship is now no more than a myth in much of British industry, and yet the myth persists despite all the evidence. At BL poor craftsmanship contributed significantly to its poor performance. The quality of our motor components compares badly with Europe in general and worse with Japan. Lloyds Register of Shipping is warning that basic craftsmanship in some of our shipbuilding yards is so deficient that they have doubts about licensing some BS ships. We need to redouble our efforts to improve basic standards of education and technical training (see para 23).

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13 Consumer resistance to buying British. In some areas, many British and foreign consumers have come to believe that "British is second best". That belief will be difficult to overturn even as British industry improves its quality and competitiveness. A general weakness amongst British companies continues to be marketing. The main task of restoring faith in British products falls on those managers responsible for marketing. But we should consider whether there is a role that Government can play - perhaps by promoting a campaign drawing on the excellence of some British goods, encouraging more people to take a fresh look at the best that is now available. It would need to be planned in close collaboration with industry and would involve engaging publicity specialists.

14 Lack of incentives for management. British executives are still relatively poorly rewarded despite the reduction that we made to the top marginal rate of income tax. We need to improve rewards for success, either by a further cut in the top rate, or more particularly by share ownership schemes (see paras 25-27).

15 Lack of incentives for other employees. Employers (including nationalised industries) should be encouraged to link rewards to achievement more. Ian MacGregor has given a good example of this at British Steel, linking an increasing proportion of earnings to performance. There is nothing wrong with high wages if they have really been earned (see also paras 25-27).

16 Resistance to technological change. We still have to deal with the paradox that whilst consumers accept new technology in the home (as evidenced by the sale of computers) new technology is often resisted at work. The general view evidently is still that new technology destroys jobs rather than that it saves them and creates new opportunities.

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IV The older industries

17 The first part of the remit for this paper asks what can be done to stop support for declining industries.

18 The most urgent need is to reduce spending on the nationalised industries. Since 1979 my Department has spent £2 billion on its ni's and state-owned companies. The corresponding EFL's have totalled almost £4 billion. Adding in the other nationalised industries brings this figure to about £10 billion. In some cases this represents an enormous diversion of real resources into loss making, declining firms. It dwarfs all DTI efforts to switch support to promote growth. Scarce financial, technical and managerial resources are being locked in to loss makers. Reducing these resources sooner rather than later will contribute to growth.

19 In order to do so, we must be prepared to see enormous changes at British Shipbuilders and in the coal industry. The immediate results will be increased unemployment in areas which are already badly depressed, and very substantial redundancy payments.

20 Although BL and BSC have made good progress, they are now under new management and will be watched very carefully to ensure that they do not slip back into their old ways. If further changes in management are required, we must make them swiftly and without hesitation.

21 I intend :

- a) || that BL should sell Jaguar, Unipart and Land Rover as soon as practicable
- b) that BS should privatise warship building and close uneconomic capacity

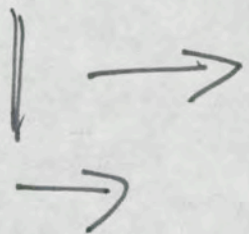
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- c) to privatise RR as soon as practicable
- d) to examine the scope for privatisation in the area of the Post Office's activities
- e) to continue to chip away at BSC, possibly by more joint companies with the private sector. We may also have to consider allowing BSC to decide its plant configuration wholly on commercial grounds.

22 Looking beyond the ni's we shall have to decide whether civil aerospace is an industry in which we should continue to invest large amounts of public money. Should we refuse launch aid to e.g. RR's new engines and the Airbus A320 on the grounds that the predicted rates of return may be either unsatisfactory or unreliable? Or do we accept that even so civil aerospace is the sort of high technology industry into which the UK ought to be moving, in order to escape the unbeatable low-wage competition in consumer goods?

V Improving our human resources

23 Education and training. Quality and availability of labour are crucial. Yet here the UK lags far behind our competitors. In Japan, for example, 95% of young people stay in full-time education until the age of 18, compared with only some 25% of young Britons. In W Germany about 60% of the workforce have vocational qualifications : this is twice the UK level. We have immediate shortages of trained technicians in microelectronic and instrumentation, and of software engineers - all of which are constraining growth now. The best way to overcome these problems in the medium to longer term is to make the education system more responsive to market needs. This is particularly necessary if the total resources devoted to this area are to remain stable or even decline. It can be achieved in a number of ways :



- a) make more use of the available data on skill shortages and graduate unemployment and earnings in deciding how central resources are to be allocated to different institutions and subject areas;
- b) make data on graduate employment and earnings much more widely available to prospective entrants to higher and further education so that they can make better informed choices on which course to apply for at which institution;
- c) encourage and reinforce links between employers and the institutions so that employers' needs play a much greater part in the design of courses and curricula;
- d) allow market needs to be reflected in the price we pay for teachers in priority areas eg maths and science, electronic and electrical engineering. We could also consider whether the level of student grants should be higher for some subjects and lower for others.

24 These proposals should lead to a better supply of manpower for industry and commerce in the future. But we should consider the scope for short term measures to help improve the quality of existing management. The small costs involved could be met by savings on regional policies. Possibilities include :

- a) small and growing companies can be encouraged to seek advice from larger ones through schemes like the Leicester Business Venture, with a very modest degree of support from Government;

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- b) where there is very clear evidence of widespread management weakness among small to medium-size companies - eg production management and design - my Department already helps meet the cost of short bouts of consultancy. This is highly cost-effective, because it tends to establish a permanent improvement in working practices and an increased willingness to use outside expertise to solve problems in the future. Other areas of well-established management weakness - eg financial management and marketing - might lend themselves to similar treatment. We are investigating this;
- c) we could take steps to encourage the supply of more suitable courses for business managers, eg on a part-time basis - in the evenings and weekends tailored to business needs. More could be made available on a 'distance learning' basis;
- d) we might also experiment with encouraging companies to make fuller use of the facilities for management training that are available by providing incentives - on a temporary basis in order to overcome the still widespread initial resistance to the use of formal management training.

25 Management and employee motivation. Bridging the gap between those who own businesses and those who work in them at all levels can help to improve motivation and thereby raise performance. We should encourage more ownership at every level. Specifically :

- a) we should encourage schemes that involve payment of a deferred profit sharing bonus which can be accumulated for the executive as payment for shares when the option is exercised. This is an especially suitable form of remuneration for executives in high technology companies where the prospects of big rewards can make up for lean initial salaries;

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- b) in order to encourage more widespread employee share ownership, we might consider linking the right to tax relief for executive shares to a requirement that similar facilities are provided to employees more generally. We might also provide for employees to receive a portion of their remuneration in shares (tax free?) This would require amendment of the Truck Acts;
- c) company schemes apart, we should maintain and if possible improve the accessibility of the stock market to the small investor. If small stockbroking firms were driven out of the market by sudden changes, this would greatly reduce accessibility. In USA financial services are being marketed through retail outlets; this is the kind of development we should encourage. I hope Nigel Lawson will also review the operation of the rate of stamp duty on share transaction. Perhaps a threshold could be established to exempt very small dealings.

26 Share ownership apart, we should take every opportunity to encourage nationalised industries and private companies to pay a larger share of executive and employee remuneration through performance related bonuses. In industries like shipbuilding this bonus should only be payable when an order is complete.

27 We suspect there are a number of promising medium size business which are at present locked up in large industrial empires and neglected by top management. De-mergers and management buyouts would enable those that work in these companies to exploit their full potential. We should encourage this approach wherever we can.

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VI Marketing

28 Export Services. Few companies can grow for long in the UK home market alone. Help with exporting can therefore be an important stimulus to growth. BOTB services are designed to provide advice and information on individual markets, and financial assistance towards the cost of visiting markets, market research abroad, exhibiting overseas and the overhead costs of breaking into new markets.

29 There is also scope for work to assess the market prospects and the best ways of penetrating overseas markets for particular sectors of British industry. The DTI has already identified a number of priority markets in Western Europe where there are particularly good opportunities for specific UK products. If successful, this targetted approach should be extended to other world markets.

30 The network of commercial posts overseas is an invaluable resource to British exporters. The DTI should be closely involved in the posting policy in this area, ensuring that decisions on the level of commercial representation overseas take full account of the needs of UK industry and commerce. MITI has 5 times the number of their staff posted around the world that DTI has.

31 Encouraging market orientation. The Government could do much more to help ensure that British goods can sell in a variety of overseas markets by making that a condition of both project assistance and purchasing contracts. We should consider;

- a) Tightening up our requirements for evidence of market assessment as a precondition for any DTI project assistance.
- b) Wherever feasible, concentrating key public purchasing contracts, including in the defence field, on products or projects that can demonstrate a convincing chance of export success. Public purchasers of all kinds should be more willing to align their requirements with those of the international marketplace.

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32 Promoting freer trade. If they are to maximise their potential for growth, UK companies need unconstrained access not only to international markets, but to technology, ideas and equipment from overseas. The government is firmly committed to an open liberal world trading system and works, within the Community, internationally and bilaterally to resist moves to protectionism and to open up protected markets (eg Japan, Spain). Special effort will be directed at freeing up areas with good prospects for UK industry (eg free trade in insurance and in services generally, both within the EC and more widely). We will also resist the sometimes less obvious, but potentially extremely damaging, actions of other administrations to restrict or frustrate the free flow of technology, ideas and high technology equipment which are all vital to industry's development. Continued vigorous action is needed to influence US policy, not least in connection with renewal of the Export Administration Act and USA claims to extra-territorial application of its laws.

VII Innovation

33 The role of government. The underlying sources of growth are discovery, invention and innovation. Direct action by Government can help to accelerate innovation. All major countries operate policies which include significant spending programmes to stimulate innovation by companies, especially in new technologies. It is arguable that the Government should play no role in this given the strong market incentive for companies to adopt new technology. But British management's generally poor record in this area considerably weakens that argument. Low profitability due to recession has made many companies more resistant to innovation, so temporary pump-priming assistance can be an acceptable route in the circumstances. However, we need to keep the cost effectiveness of any programmes under constant review. The two main objectives are confined neither to any particular industrial sector, nor to company size. They are :

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- a) to help spread awareness of available knowledge and encourage its practical application
- b) to generate new knowledge/ideas through research in companies and the public sector.

34 My Department is engaged on a range of programmes already. We should consider whether there is a case for doing more by, for example, consciously switching some of the potential savings on nationalised industries and regional payments into this area. Our Manifesto implied that we should continue the expansion of innovation work, but this must be constrained by what we can afford, which in turn depends on what we can save elsewhere.

35 Spreading knowledge and awareness of key technologies. In recent years, Government has identified several key 'enabling' technologies with widespread application and has mounted awareness programmes to stimulate interest in companies. Although it is sometimes hard to isolate their precise contribution, I believe that our microelectronics support programme gave a boost to GEC, Plessey and Ferranti in getting into the silicon business. Our support for fibre optics helped to put the UK ahead in Europe in this technology. A range of businesses have benefitted from SEFIS, our robotics programme and CADTES. All these programmes need, of course, to be monitored so that they do not run on beyond the time that they are needed.

36 Application of technology. My Department makes grants to encourage the application of key technologies and to promote R&D which leads to new products or new processes. there is no attempt to limit this help to particular sectors.

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37 We also encourage innovation through our public purchasing policies, for example in the fields of IT and medical electronics. The aim of a public purchasing policy is not to buy British "willy-nilly". It is to provide a launch and a shop window for those who have developed good products, and to help British suppliers to compete. Whether through poor marketing by British suppliers or because of lack of imagination amongst public purchasing officers, it does often require a positive effort by my Department to introduce British goods of high quality into eg government offices or our hospitals. We are not yet fully exploiting the enormous potential of Whitehall, the town halls, the NI's and the NHS.

38 We should maintain the momentum of our micros in schools scheme. It provides a market for British hardware, spin-off opportunities (eg education software with international market potential) and of course it helps to develop in our schools the skills that industry is looking for. It also introduces pupils at an early stage to British products that are among the leaders in their field.

VIII Promoting civil research

39 Government can help to stimulate basic industrial research. We spend about £6 billion a year on R&D which is a proportion of our national resources is broadly in line with other developed economies. But the UK is out of line with others in devoting such a large part of that to defence. As a result, a relatively large share of R&D expenditure is controlled by government and resources for commercially-oriented R&D tend to be pre-empted. To tackle the problem firmly and at its root we need a decisive switch of R&D resources away from defence and into private sector industrial work. It is wasteful of scarce R&D talent to try and devise British solutions to every defence need : we should concentrate on the cases where there are export opportunities and be more willing to align our requirements with those of other countries wherever this is possible.

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40 Basic industrial research for civil purposes has seriously declined in recent years. This is in sharp contrast to other countries, notably Japan where each major company proudly boasts an expanding R&D programme. An OECD index of in-house company R&D shows a fall in the UK from 100 to 85 between 1967 and 1975. (Japan rose from 100 to 200, Germany to 145, France to 120). Within this expenditure, there has been a significant shift away from long term research.

41 We should consider how we can stimulate more civil research in companies. Up to now our main mechanism has been selective project support for R&D. We in DTI are now examining a wide range of possible alternative mechanisms. USA and France have experimented with new forms of tax incentives. We shall be considering all those possibilities in view of the decline in company research and our own need to reduce manpower. We shall also consider the effects of generous tax relief for limited R&D partnerships (as in the USA) or science based contract work at universities or Government REs. Definitions of scientific research currently applied by the Inland Revenue may need modification.

42 Research Council and University Grants Committee expenditure accounts for about £800 million through the DES. Of Research Council money, the Science and Engineering Research Council dominates with over £200 million; £79 million of which goes on nuclear physics, space and astronomy; £64 million on basic science and only £40 million on engineering.

43 We need to harness the expertise in our higher education institutions. We shall be studying the recent ACARD proposals and papers are being proposed for colleagues to consider the future role of the BTG.

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44 We should also consider :

- a) Increase the representation of industry on academic grant-awarding bodies.
- b) Examining with DES the scope for switching resources from prestigious but low industrial spin-off areas of science which may not accord with the UK's economic circumstances.

45 My Department has commissioned a study by Sussex University's Science and Policy Research Unit into the ways in which other countries, especially Japan, assess the potential commercial applications of current scientific developments. the report should be ready by next Summer.

IX New areas of employment

46 We cannot predict with any accuracy where new employment opportunities will arise. But in a number of areas we can see good potential for new jobs, and the Government must ensure that its actions do not inhibit that growth. There may in some areas be a case for catalytic action.

47 Cable. This is a good example of a new activity which has been created without a penny of Government money. I hope that Leon Brittan and I can agree to maintain the momentum after the issue of the 12 interim licences, by encouraging the development of the new services such as addressible data bases, electronic publishing and educational software.

48 Telecommunications. We need to press ahead with cellular radio and portable telephones. Their development will also help to reduce BT's monopoly power much faster than people realise. Our telecoms product scheme offers a modest amount of help. I believe also that we should continue to support our space industry, which is now one of BAe's most successful activities.

49 Leisure and entertainment. Warwick University Institute has forecast a 26% growth for the 1980's in the "literary, artistic and sport" sector which already employs 450,000. Nigel Lawson, Patrick Jenkin and I need to review urgently how our present tax and planning systems might inhibit the development of sports complexes, entertainment parks, hotels, catering and tourist attractions.

50 Financial services. UK earnings from financial and consultancy services are greater than of any one other country in the world. To maintain this growth on a world-wide basis, we may need to make provisions for services like those that already exist (in the GATT and elsewhere) for trade in goods. The UK is in the forefront of trying to set up multi-lateral study of barriers that may exist, with the view to negotiation eventually on how they might be removed. My Department is consulting services sectors on the obstacles that they face and where UK interests lie in future negotiation. I hope for a clear picture early next year.

51 Transport. I hope that Tom King will also consider de-regulation of our domestic air routes, as well as pressing the EC to allow freer competition in Europe. Britain is good at the airline business. The benefits to our infrastructure could be substantial. The growth air of routes in Britain and so of regional airports could have a significant impact on employment and employment prospects in some of our most depressed areas. There may be a demand for light transport systems in many towns and inner cities, and we should look for ways of involving the private sector in them (not local or central government).

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X Inward Investment

52 I believe that further inward investment in this country by successful overseas companies could greatly benefit the UK economy. In particular, it could provide an example to British industry of managerial excellence and the benefits of adopting new technology. Such an example could probably do more than almost any amount of Government exhortation or subsidy, and could benefit new employment prospects far beyond the impact of the particular investment project. I intend to pursue such new projects with vigour. The anxiety of the Japanese Government over European protectionism is undoubtedly a help to us in urging this policy.

XI Conclusion

53 Encouraging growth will demand great efforts from us in order to :

- a) Change attitudes in industry and among the public generally towards rewards, the service industries, British workmanship, labour practices and new technology.
- b) Cut back the burden of the older nationalised industries.
- c) Provide education and training which equip people for employment.
- d) Motivate management and all employees.
- e) Help exports and help open up new market opportunities abroad.

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- f) Ensure that British industry is aware of and utilising new technology.
- g) Provide the conditions for uninhibited growth of employment in new areas of activity.
- h) Attract foreign investment in order to help us with all the above tasks.

54 Some of the work of my Department is designed to help compensate industry for its low profitability. But burdens imposed by Government are one of the causes of low profits. We must be very careful to strike the right balance. Our most important contribution to growth is to provide the essential framework by restraining Government expenditure and containing inflation. That we must maintain at all costs.

Department of Trade and Industry

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Second draft of Paper Two

ENCOURAGING GROWTH

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This paper examines what the Government can do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology.

I Background:Where to look for growth

2 The first thing is to try to understand from where growth comes. Total UK output is now some 6% above its 1975 level. Output has been growing faster than that in services, public utilities, agriculture and North Sea oil. In services it grew by 8% between 1975 and 1981, and in manufacturing it fell by 11%. Employment in services (including government) rose by 5%, and in manufacturing it fell by 19%.

3 In manufacturing, employment fell in all sectors including those that showed considerable growth in output. For example, electronics output grew by 38% while employment fell by 13%. In the sectors with declining output, decreases in employment and output were broadly similar in most cases. Amongst the services, employment growth was strongest amongst the financial and other business services and in sport. Amongst some of the others there was a fairly pronounced fall in employment eg. in food and drink wholesaling and retailing.



4 The broad definitions of sectors mask very considerable variations within sectors and between companies. For example, UK production in the broad electrical engineering sector in 1982 was no higher than it was in 1979. But within this, electronic components rose by 10% over the period telecommunications by 21%; computers by 22%. By contrast, production of domestic electrical appliances fell by 16%. A survey of 18 UK computer equipment manufacturers shows sales growth (current prices) over three recent years varying from under 30% to over 1700%. Many examples can be found of individual companies within traditionally 'declining' sectors doing well; for instance several companies in the textiles sector, which declined by 28.6% during 1975-81, have featured in the Queen's Award for Export lists in recent years.

5 Comparing the growth or decline of UK manufacturing sectors with world growth rates by sector, the pattern is similar e.g. both in the UK and the world we find electrical machinery doing best, basic metals doing least well. But the UK growth rates are much lower than elsewhere (in fact generally negative). This suggests that growth is being held down in all sectors. We should therefore examine what factors depress UK manufacturing as a whole.

6 Growth in manufacturing seems to be positively associated with human capital as measured by the proportion of professional and technical staff in the workforce. In general the higher the better.



7 It is often argued that small firms will be the main sources of employment growth in the future. It is important to encourage this dynamic element in the economy. But British evidence shows output and employment growth among small firms is bound to be a slow process; many new businesses will (and should!) die; and many small firms will not wish to expand rapidly or at all. We should be cautious about expecting too much growth here.

8 There is evidence that successful growth strategies share a number of common characteristics. An analysis of the 'Fortune 500' firms in the USA, admittedly dominated by manufacturing, highlights :

(a) Responding to the market

Successful firms pay close attention to their markets. They are able to identify the variety and changing pattern of customers needs, often through close links with distributors. Management expertise in marketing, purchasing and quality control are all critical.

(b) Flexible organisation

To respond quickly to new or changing markets, growing firms often adopt a flexible organisation. Product design can readily be modified; manufacturing systems can be re-shaped; and there is some more anecdotal evidence that smaller units, even within larger firms, can be managed more efficiently. Design, production engineering, and employee relations are important management skills.



(c) Building on technological strengths

The best financial performance among these firms was shown by companies diversifying into products using a similar technology, capitalising on their experience.

II The balance between manufacturing and service industries

9 We obviously must pursue policies which benefit both the manufacturing and service industries. Manufacturing is still an extremely important element in our GDP, but it is unlikely that manufacturing industry can provide our economy with increased employment. Even our successful manufacturing sectors seem able to expand output whilst shedding labour. Any increases in employment are more likely to occur in the services sector. We must therefore ensure, at least, that our policies do not discriminate against services, which at present a number probably do.

10 Public attitude to manufacturing. There is a widely-held misconception that a nation's economic "virility" depends on its manufacturing industries, and that dependence on service industries is a characteristic of second-rate countries. We must reject that notion absolutely. Herman Kahn predicted that the economies of the more advanced nations would in time evolve beyond manufacturing industry, and something of that process can be observed today around the world. The misconception



could be damaging for us. For example, the Opposition seized on our trade deficit in manufactures as an important indicator of economic failure. It is no such thing. We need to work on public opinion - as we have done to alter perceptions on unemployment - and guide it towards accepting an economy more oriented towards services.

III Factors affecting UK performance

11 Interest rates. We must continue our efforts to bring these down. Our real interest rates are high and deter investment.

12 British craftsmanship. The changes required to improve our economic performance have been made more difficult because many people in industry still believe that we are a craft-based economy. The quality of British craftsmanship is now no more than a myth in much of British industry, and yet the myth persists despite all the evidence. At BL poor craftsmanship largely accounted for its poor performance. The quality of our motor components compares badly with Europe in general and worse with Japan. Lloyds Register of Shipping is warning that basic craftsmanship in some of our shipbuilding yards is so deficient that they have doubts about licensing some BS ships. We need to redouble our efforts to improve basic standards of education and technical training (see para 26); but also to recognise that our future successes are likely to owe more to flair and inventiveness than to old-fashioned craftsmanship.



13 Consumer resistance to buying British. In some areas, many British and foreign consumers have come to believe that "British is second best". That belief will be difficult to overturn even as British industry improves its quality and competitiveness. A general weakness amongst British companies continues to be marketing. I believe that the Government can help by promoting a campaign on the excellence of British goods in those areas where they are now of high quality. That may require engaging publicity specialists.

14 Lack of incentives for management. British executives are still relatively poorly rewarded despite the reduction that we made to the top marginal rate of income tax. We need to improve their rewards, either by a further cut in the top rate, or more particularly by share ownership schemes (see paras 27-30).

15 Lack of incentives for other employees. Employers (including nationalised industries) should be encouraged to link rewards to achievement more. Ian MacGregor has given a good example of this at British Steel, offering low basic wages but good bonuses linked to performance. There is nothing wrong with high wages if they have really been earned (see also paras 30-31).



16 The exchange rate. The UK's effective exchange rate is still well above the low point reached in March 1983. It is hard to avoid the comparison between Japan with high growth, a weak Yen and low real interest rates, and the UK with low growth, a relatively highly valued currency and high real interest rates. Arguably, a fall in both our exchange and interest rates would do more than anything else to stimulate growth. There is an obvious danger of stimulating somewhat higher inflation in the process, which would admittedly be bad for growth. But we need to review the balance carefully.

17 Resistance to technological change. We still have to deal with the paradox that whilst consumers accept new technology in the home (as evidenced by the sale of computers) new technology is often resisted at work. The general view evidently is still that new technology destroys jobs rather than that it saves them and creates new opportunities.



IV The older industries

18 The first part of the remit for this paper asks what can be done to stop support for declining industries.

19 The most urgent need is to reduce spending on the nationalised industries. Since 1979 my Department has spent £2 billion on its ni's and state-owned companies. In addition the corresponding EFL's have totalled almost £4 billion. Adding in the other nationalised industries brings this figure to about £10 billion. In some cases this represents an enormous diversion of real resources into loss making, declining firms. It dwarfs all DTI efforts to switch support to promote growth. Scarce financial, technical and managerial resources are being locked in to loss makers. Reducing these resources sooner rather than later will contribute to growth.

20 In order to do so, we must be prepared to see enormous changes at British Shipbuilders and in the coal industry. The immediate results will be increased unemployment in areas which are already badly depressed, and very substantial redundancy payments.

21 Although BL and BSC have made good progress, they are now under new management and must be watched very carefully to ensure that they do not slip back into their old ways. If further changes in management are required, we must make them swiftly and without hesitation.



22 I intend :

- a) that BL should sell Jaguar, Unipart and Land Rover beginning in 1984, and to be completed by the end of the Parliament
- b) that BS should privatise warship building and close uneconomic capacity
- c) to continue progress towards privatising RR
- d) to examine the scope for privatisation in the area of the Post Office's activities
- e) to continue to chip away at BSC, possibly by more joint companies with the private sector.

23 We should also consider :

In my area

- a) Allowing BSC to decide its plant configuration on commercial grounds. This would entail breaking government commitments on Ravenscraig, but in view of the economic cost of that decision, it must be considered.



Outside my area

- b) Privatising NCB on a pit (or regional) basis with major employee shareholding on attractive terms

- c) Developing BR into a leasing company, allowing private contractors to lease separate items of rolling stock and stations.

24 Looking beyond the ni's we shall have to decide whether we regard civil aerospace as a declining or a growing industry. . Should we refuse launch aid to e.g. RR's new engines and the Airbus A320 on the grounds that the predicted rates of return may be either unsatisfactory or unreliable? Or do we accept that even so civil aerospace is the sort of high technology industry into which the UK ought to be moving, in order to escape the unbeatable low-wage competition in consumer goods? That is a major strategic decision.

25 The Government arguably supports declining industries in two other ways :

a) Regional policy

We are about to consider this. Suffice it to say in this context that automatic capital grants will always contain ineffective (deadweight) expenditure,



and the total cost of regional assistance represents a significant burden on taxation. Therefore, regional assistance has over the years represented a diversion of resources away from growing industries towards declining ones. We should aim in the long term to abolish regional assistance, and in the short term to :

- i) abolish automatic capital grants and end the discrimination against services.
- ii) cut the total regional budget.

b) International trade restrictions

We operate a whole variety of restrictions at government and industry level. These include the Multifibre Arrangement and the JAMA-SMMT understanding on Japanese car imports. The MFA has probably given our industry little effective protection and may have done it harm. I am looking into its effects now.



V Improving our human resources

26 Education and training. Quality and availability of labour are crucial. Yet here the UK lags far behind our competitors. In Japan, for example, 95% of young people stay in full-time education until the age of 18, compared with only some 25% of young Britons. In W Germany about 60% of the workforce have vocational qualifications : this is twice the UK level. We have immediate shortages of trained technicians in microelectronic and instrumentation, and of software engineers - all of which are constraining growth now. The best way to overcome these problems in the medium to longer term is to strengthen the role of market signals in higher and further education. This is particularly necessary if the total resources devoted to this area are to remain stable or even decline. This can be achieved in a number of ways :

- a) make more use of the available data on skill shortages and graduate unemployment and earnings in deciding how central resources are to be allocated to different institutions and subject areas;

- b) make data on graduate employment and earnings much more widely available to prospective entrants to higher and further education so that they can make better informed choices on which course to apply for at which institution;



- c) encourage and reinforce links between employers and the institutions so that employers' needs play a much greater part in the design of courses and curricula;
- d) reinforce market signals by offering higher grants for education and training in priority areas eg maths and science teachers, electronic and electrical engineers; cut costs with fewer grants for lower priorities.

These proposals should lead to a better supply of manpower for industry and commerce in the future. Short term measures can also be taken to improve the quality of existing management. For instance :

- e) The purchasing power of companies in the area of management and business training could be increased by providing Government assistance for additional company programmes - either in house or at colleges and other institutions. Where there is clear evidence of wide-spread management weakness eg financial management, production management, special programmes need to be developed or expanded.
- f) More resources could be switched into our expanding range of management advisory services, including establishing a financial advisory service to improve accounting procedures in smaller firms. We should also assess more rigorously the management capability of all applicants for DTI support and where appropriate steer them towards management advisers



27 Management motivation. It is essential to improve management motivation. A further reduction in the top marginal rate of tax is not now the best way forward on that since we need to relate increased rewards to performance. At present executives do not enjoy any special tax relief on share options schemes. They should. In particular we should encourage schemes that involve payment of a deferred profit-sharing bonus related to company or divisional performance, which can initially be accumulated for the executive towards paying for the shares when the option is exercised.

A major need is for small growing companies to attract and retain high quality executives in competition with larger 'blue chip' companies. Special reliefs could be given to executives of unquoted companies under which, for example, options up to a maximum value could be taken free of income tax on exercise and growth of value. My Department has commissioned work on such a scheme.

28 We should set an example in the ni's by paying executives performance-related bonuses.

29 The companies which will show the most significant growth in the future are more likely to be medium-sized than new businesses. There are probably a number of extremely promising medium-sized businesses which are at present parts of large industrial empires neglected by top management and unable to reveal their full potential. We should encourage de-mergers



and management buy-outs in the private sector. Ministers can encourage top management to examine their empires for likely candidate companies that could be given their independence.

30 Employee motivation. We should encourage more of the ni's to develop local bonus arrangements. These have been very significant in destroying the power of the NUM over the miners. British Shipbuilders will have to follow BSC's lead in bargaining fewer jobs for higher potential rewards. We need to develop in the ni's the concept of "delayed gratification" e.g. bonuses payable only on completion of orders. A further element of these new reward packages ought to be the erosion of demarcations. At Sunderland BS has already made considerable progress in breaking down the rigid demarcation between welders and boilermakers. These changes, well publicised, could have a significant impact by example on the private sector.

We need to encourage employee share ownership further, too. One way would be to link executive option schemes to general employee schemes. For example, we could require that if a company is to benefit from tax relief for executive share facilities, it must also provide general employee facilities. The proportion of share options available to executives would be limited. We could provide for employees to receive a portion of their remuneration in shares (tax free?). This would require amendment of the Truck Acts.



31 Other incentives for wider share ownership. We should encourage wider share ownership generally, not just within company schemes. We should examine these possibilities :

- a) We need to increase public awareness of share ownership possibilities and of the stock market. Stockbrokers' professional etiquette forbids them to advertise their services, or to set up High Street stock shops. In the USA, Merrill Lynch and the department store chain of Sears Roebuck are now providing stock and other financial services in shops. The financial services market has enormous potential. We should examine how we can encourage stock brokers or others to take a more outgoing attitude.

- b) I hope Nigel Lawson will review the operation and rate of stamp duty on share transactions. Perhaps a threshold could be established to exempt very small dealings.

VI Marketing

32 Export Services. Few companies can grow for long in the UK home market alone. Help with exporting can therefore be an important stimulus to growth. BOTB services are designed to provide advice and information on individual markets, and financial assistance towards the cost of visiting markets, market research abroad, exhibiting overseas and the overhead costs of breaking into new markets.

33 There is also scope for work to assess the market prospects and the best ways of penetrating overseas markets for particular sectors of British industry. The DTI has already identified a number of priority markets in Western Europe where there are particularly good opportunities for specific UK products. If successful, this targetted approach should be extended to other world markets.

34 The network of commercial posts overseas is an invaluable resource to British exporters. The DTI should be closely involved in the posting policy in this area, ensuring that decisions on the level of commercial representation overseas take full account of the needs of UK industry and commerce. MITI have 300 of their own staff posted around the world.



35 Encouraging market orientation. The Government could do much more to insist that British goods can sell in a variety of overseas markets by making that a condition of both project assistance and purchasing contracts. We should consider these specific proposals :

- a) Require evidence of market research at each of several stages as a precondition for any DTI project assistance.
- b) Reserve key public purchasing contracts, including in the defence field, for those who can demonstrate convincing plans to export similar products or services.
- c) Secure EC agreement to extending SFI support to initial marketing costs.

VII Innovation

36 Direct action by Government may help accelerate innovation. All major countries operate policies which include significant spending programmes to stimulate innovation by companies, especially in new technologies. It is arguable that the Government should play no role in this given the strong market incentive for companies to adopt new technology.



British management's generally poor performance in this area considerably weakens that argument, however. The two main objectives are confined neither to any particular industrial sector, nor to company size. They are :

- a) to help spread awareness of available knowledge and encourage its practical application.
- b) to generate new knowledge/ideas through research in companies and the public sector.

37 My Department is engaged on a range of programmes already. More could be done if we thought it worth spending more, if, for example, we consciously switched some of the potential savings on nationalised industries and regional payments into this area. The result would be a similar range of programmes, but we would be able to reach more of British industry with them. We have to decide whether or not there is a strong case for doing so rather than reducing the PSBR.



38 Spreading knowledge and awareness of key technologies. In recent years, Government has identified several key 'enabling' technologies with widespread application and has mounted awareness programmes to stimulate interest in companies. It is hard to know their precise contribution to improved awareness and use.

39 However, I believe that our microelectronics support programme gave a boost to GEC, Plessey and Ferranti in getting into the silicon business. Our support for fibre optics helped to put the UK ahead in Europe in this technology. A range of businesses have benefitted from SEFIS, our robotics programme and CADTES. All these programmes need, of course, to be monitored so that they do not run on beyond the time that they are needed.



40 Application of technology. My Department makes grants to encourage the application of key technologies and to promote R&D which leads to new products or new processes. There is no attempt to limit this help to particular sectors.

41 We also encourage innovation through our public purchasing policies, for example in the fields of IT and medical electronics. The aim of a public purchasing policy is not to buy British "willy-nilly". It is to provide a launch and a shop window for those who have developed good products, and to help British suppliers to compete. Whether through poor marketing by British suppliers or because of lack of imagination amongst public purchasing officers, it does often require a positive effort by my Department to introduce British goods of high quality into eg government offices or our hospitals. We are not yet tapping the enormous potential of Whitehall, the town halls, the nis and the NHS. Little initial direct cost is involved in this work, however. I recommend that we extend these selective public purchasing initiatives.

42 We should maintain the momentum of our micros in schools scheme. It provides a market for British hardware, spin-off opportunities (eg education software with international market potential) and of course it helps to develop in our schools the skills that industry is looking for.



43 We can improve public purchasing in the defence field. In the USA, space and defence programmes have provided big markets for sophisticated microelectronics, computers, aerospace equipment, new material and manufacturing processes, all with applications extending well outside the defence field. We need to align our defence purchasing more with the international market opportunities.

VIII Promoting civil research

44 Government can help to stimulate basic industrial research. We spend about £6 billion a year on R&D which as a proportion of our national resources is broadly in line with other developed economies. But the UK is out of line with others in devoting such a large part of that to defence. As a result, a relatively large share of R&D expenditure is controlled by government and resources for commercially-oriented R&D tend to be pre-empted. To tackle the problem firmly and at its root we need a decisive switch of R&D resources away from defence and into private sector industrial work.

45 Basic industrial research for civil purposes has seriously declined in recent years. This is in sharp contrast to other countries, notably Japan where each major company proudly boast an expanding R&D programme. An OECD index of in-house company



R&D shows a fall in the UK from 100 to 85 between 1967 and 1975. (The index for Japan rose from 100 to 200, in Germany from 100 to 145 and in France from 100 to 120). Within this expenditure, there has been a significant shift away from long term research.

46 We should consider these specific proposals :

- Stimulate more civil research in companies. DTI is currently examining a wide range of possible mechanisms, including tax and current project support
- Introduce generous (ie more than 100%) tax relief for limited R&D partnerships (as in the USA) or science based contract work at universities or Government REs. Definitions of scientific research currently applied by the Inland Revenue may need modification.

47 Research Council and University Grants Committee expenditure accounts for about £800 million through the DES. Of Research Council money, the Science and Engineering Research Council dominates with over £200 million; £79 million of which goes on nuclear physics, space and astronomy; £64 million on basic science and only £40 million on engineering.

48 I recommend that we consider sympathetically the ACARD report recommendations on exploiting the expertise and resources in higher education institutions.



In summary they are to establish :

- a) a "seedcorn" fund to reward HE institutions for the industrial research contracts that they win
- b) a fund to help HE institutions to improve their infrastructure and so improve their ability to do work for industry.

49 We should also consider these proposals :

- a) Increase the representation of industry on academic grant-awarding bodies.
- b) More radically, transfer a portion of the DES responsibility for HE funding to the DTI and have a clear policy, agreed at the highest level, to withdraw from prestigious but low industrial spin-off areas of science which do not accord with the UK's economic circumstances.

50 My Department has commissioned a study by Sussex University's Science and Policy Research Unit into the ways in which other countries, especially Japan, assess the potential commercial applications of current scientific developments. The report should be ready by next Summer.

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IX New areas of employment

51 We cannot predict with any accuracy where new employment opportunities will arise. But in a number of areas we can see good potential for new jobs, and the Government must ensure that its actions do not inhibit that growth. There may in some areas be a case for catalytic action.

52 Cable. This is a good example of a new activity which has been created without a penny of Government money. I hope that Leon Brittan and I can agree to maintain the momentum after the issue of the 12 licences, by encouraging the development of the new services such as accessible data bases, electronic publishing and educational software.

53 Telecommunications. We need to press ahead with cellular radio and portable telephones. Their development will also help to reduce BT's monopoly power much faster than people realise. Our telecoms product scheme offers a modest amount of help. I believe also that we should continue to support our space industry, which is now one of BAe's most successful activities.



54 Leisure and entertainment. Warwick University Institute has forecast a 26% growth for the 1980's in the "literary, artistic and sport" sector which already employs 450,000. Nigel Lawson, Patrick Jenkin and I need to review urgently how our present tax and planning systems might inhibit the development of sports complexes, entertainment parks, hotels, catering and tourist attractions. The entertainments business is riddled with restrictions on competition, and we should look at them closely.

55 Transport systems. There will be a demand for light transport systems in many towns and inner cities, and we must find ways of involving the private sector in them (not local or central government). That could apply even to new underground lines in London. We need generally to demonstrate that investments in transport repay the investor. I believe that Tom King should consider moving us towards toll roads, perhaps starting with the London-Dover motorway when it is complete. If private investors are able to come forward with an acceptable plan for a Channel Tunnel (or bridge/tunnel), that too could be a major provider of new jobs. I hope that Tom King will also consider de-regulation of our domestic air routes, as well as pressing the EC to allow freer competition in Europe. Britain is good at the airline business. The benefits to our infrastructure could be substantial. The growth air of routes in Britain and so of regional airports could have a significant impact on employment and employment prospects in some of our most depressed areas.

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56 I believe that further inward investment in this country by successful overseas companies could greatly benefit the UK economy. In particular, it could provide an example to British industry of managerial excellence and the benefits of adopting new technology. Such an example could probably do more than almost any amount of Government exhortation or subsidy, and could benefit new employment prospects far beyond the impact of the particular investment project. I intend to pursue such new projects with vigour. The anxiety of the Japanese Government over European protectionism is undoubtedly a help to us in urging this policy.

XI Conclusion

57 Encouraging growth will demand great efforts from us in order to :

- a) Change attitudes in industry and among the public generally towards rewards, the service industries, British workmanship, labour practices and new technology.



- b) Cut back the burden of the older nationalised industries.
- c) Provide education and training which equip people for employment.
- d) Motivate management and all employees.
- e) Ensure that British industry is aware of and utilising new technology.
- f) Provide the conditions for uninhibited growth of employment in new areas of activity.
- g) Attract foreign investment in order to help us with all the above tasks.

The Government could improve its performance in a number of areas. But we already provide the essential framework for growth by restraining Government expenditure and containing inflation, and that we must maintain at all costs.