

CONFIDENTIAL

Prime Minister
23 December 1982

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PRIME MINISTER

THE IMPORTS PANIC

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Ms 23/12

The Christmas boom in the shops has brought with it a revival of the panic that extra consumer demand will now be swallowed up by imports. This panic has now reached extravagant heights with the assertion that 100% of any increase in demand is likely to be taken up by foreign goods.

The great political danger if we encourage this panic by too much concentration on the foreign threat is that we shall be driven into a corner from where there is only one logical exit: withdrawal from the European Communities.

It is important to restore a sense of proportion and a positive spirit if we are to continue to improve industrial confidence.

The following points are surely worth getting across to the public in speeches and press briefings for 1983:

1. Imports, even of finished consumer goods, are still lower than the third quarter of last year, although they did rise sharply in the third quarter of this year.
2. More than four-fifths of British imports are in raw materials, semi-manufactures etc (and have been for years). You can't have a revival in industrial production without having an import revival first.
3. World trade has grown hugely over the past 30 years. British exports have participated in that growth. Some increase in import penetration is a consequence of affluence and consumer choice.
4. Even foreign goods have to be distributed by British distributors and sold by British shopkeepers. There are thousands of jobs at stake in those sectors too.
5. We are self-sufficient in oil. We are 75% self-sufficient in temperate foodstuffs. This is a transformation from the raw-material-hungry Britain of our parents and grandparents; and it is a transformation which is reflected in our balance of payments position.

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/Yet Wynne Godley's

Yet Wynne Godley's chief worry about our recent deficit in manufactured goods was that we should "no longer be able to feed ourselves".

6. Yes, we are disturbed by that deficit. And we intend to recapture both those markets which we have lost because we have failed to compete on price, design and delivery; and those new markets which are just opening up. That is why we have backed British Leyland and British Steel. Hence, IT Year etc.

But we intend to compete in a positive spirit - offering better goods and services to the world, not trying to exclude foreign goods for fear that we cannot compete.

7. None of this is intended to rule out VRAs with Japan and Spain - and any other measures against dumping and unfair competition which may be necessary. But VRAs cannot be a policy, least of all for a nation which lives by international trade.

I am sending a copy of this note to Lord Cockfield, the Chancellor of the Exchequer, Patrick Jenkin and John Sparrow.

FERDINAND MOUNT

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10 DOWNING STREET

11 January 1982

John Kerr Esq
HM Treasury
Parliament Street
LONDON SW1

Dear Sir,

THE IMPORTS PANIC

Thank you for your letter of 4 January. I would be sorry if a couple of ellipses in my original note should have misled the Chancellor into describing errors of fact or interpretation which were not there.

- (a) What I was clearly referring to in Items 1 and 2 were imports of "finished consumer goods". Those, after all, are what consumers buy. According to the Department of Trade's figures, imports of finished consumer goods at present account for only 15.5% of total visible imports - ie less than one-fifth (my "etc" in Item 2 included capital goods, and I should have spelled this out). There was no factual error.
- (b) The implied assumption that we ought, more or less, to have maintained our share of world trade throughout the post-War period suggests that other countries ought not to have entered the export business so vigorously. If the developed countries really believe in encouraging the NICs, then some of us at least must accept a reduction in our percentage share of world trade - though not in our sales volume.
- The same goes for rising import penetration. Exports from developing countries or from war-damaged countries recovering from a low post-war base have to be sold somewhere.
- (c) The reference to "our recent deficit in manufactured goods" refers to the brief period of deficit in the third quarter of last year which Mr Godley seized on with such zestful schadenfreude. Mr Macrae refers me to the Treasury's Economic Progress Report which does indeed put the whole matter in excellent perspective. In fact, I don't know what I would do without it.
- (d) Seeing things in perspective is not, however, the same as complacency. We are all anxious about the supply side. My sole concern was that we should not let our proper anxieties lead us into an irrational - and ultimately self-defeating - panic about imports.

I am copying this letter to the recipients of my original note.

*Your ever
faithful*



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From: John Sparrow
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6 January 1983

Ferdinand Mount Esq
No 10 Policy Unit
Downing Street
S W 1

Dear Ferdy,

Thank you for sending me a copy of your ^{23/12} note on "The Imports Panic". I entirely support the course of action which you recommend.

I have also seen the note which John Kerr sent you on ^{TPM} 4 January. The key task is to reverse the longer term declining trend in our share of world export markets, which can only be done by increased competitiveness and greater initiative on the part of our exporters and by breaking down other countries' barriers to our goods and services. As you yourself point out, rising import penetration is a reflection of increasing wealth and it only becomes a problem if we lack the wherewithal to pay our import bills. There is nothing intrinsically wrong with importing finished manufactures, provided that we can afford them and that they are not merely a reflection of our own failure to produce effectively. In this sense, the imports panic is concerned with the symptoms and not with the disease.

Every individual, company and country will buy more as it grows more wealthy; what we have to do is to make sure that we are wealthy enough to afford the standard of living that we aspire to. And it is to our advantage if higher imports (including finished manufactures) increase world trade and the purchasing power of countries for our exports, goods and services, in areas where we are or should be competitive.

Copies go to the recipients of your original note.

Yours sincerely,
John

John Sparrow

Trade:

Non-Tariff barriers

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