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National Economic Development Council

NEDC(84) 3rd Meeting

MINUTES of a Meeting at the NATIONAL ECONOMIC DEVELOPMENT OFFICE
Millbank Tower, Millbank, London SW1, on Wednesday, 7 March 1984

Present:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
(in the Chair)

Sir Terence Beckett CBE

Mr J S Cassels CB

Sir Campbell Fraser

Sir George Jefferson CBE

The Rt Hon Patrick Jenkin MP
Secretary of State for the
Environment

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Education and
Science

The Rt Hon Tom King MP
Secretary of State for Employment

Mr R Leigh-Pemberton

Dr J S McFarlane

Dr P T Main ERD

Sir Walter Marshall

Mr J J R Pope

The Rt Hon Norman Tebbit MP
Secretary of State for Trade and
Industry

Mrs R E Waterhouse CBE

Mr D Young

The following were also present:

The Rt Hon Alick Buchanan-Smith MP, Minister of State for Energy

Mr Stuart Hollander, Chairman of the Cotton and Allied Textiles Economic
Development Committee

Mr D B Andren
HM Treasury

Mr B Armstrong
Department of Trade and Industry

Mr M Brech
National Economic Development Office
(for item 4)

Mr V Brown
Department of Trade and Industry

(i)

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Mr J Caines Department of Trade and Industry	Mr M Cannell National Economic Development Office (for item 2)
Miss R Crockett Confederation of British Industry	Mr L Dicks-Mireaux Bank of England
Mr C J Farrow Bank of England	Mr M J Faulkner HM Treasury
Mr A G R Gater National Economic Development Office (for item 2)	Mr M A Hall HM Treasury
Mr J R S Homan National Economic Development Office	Mrs Z Hornstein Department of Employment
Mr A Johnson Department of Employment	Mr B Kalen HM Treasury
Mr P Landymore National Economic Development Office (for item 4)	Mr C Leach National Economic Development Office
Mr K McDowell Confederation of British Industry	Sir Donald MacDougall CBE Confederation of British Industry
Mr P McGregor National Economic Development Office	Mr N J Monck HM Treasury
Dr D Morris National Economic Development Office	Miss M O'Mara HM Treasury
Mr G Reid Manpower Services Commission	Mr T Rickett National Economic Development Office
Mr M Roberts Confederation of British Industry	Mr T Sparrow National Economic Development Office
Mr J Stevens National Economic Development Office	Mr R Trotman Nationalised Industries' Chairmen's Group
Mr I Urquhart Department of the Environment	Mr J R Wakely Department of Energy
Mr R Walker Department of Education and Science	Mr E Wright Department of Trade and Industry
Secretariat:	
Mr P V Dixon	
Mr D A Truman	

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1. INTRODUCTION

The CHANCELLOR OF THE EXCHEQUER paid a tribute to Sir Donald MacDougall, the first Economic Director of the NEDO, who was present at a meeting of the Council for the last time. He said that apologies for absence had been received from the Secretary of State for Energy, who would be represented by the Minister of State, and from Sir Donald Barron. Members of the Council would also be aware that representatives of the TUC had withdrawn from attendance for the time being; the TUC's decision did not apply to the EDCs. He regretted the TUC's absence, but thought the right thing was to go ahead with Council business as usual, since there was much work to do. He hoped that all present would agree.

The DIRECTOR GENERAL also regretted the absence of the TUC. The NEDC existed to promote dialogue between Government, employers and trades unions, and it was part of its strength that this role was not affected by changes in the balance of power at Westminster. When the dialogue worked well, it influenced prosperity and jobs for the better so that, when it broke down, all were losers. Continued absence would put at risk the whole of the 'Neddy' operation, and he hoped the TUC would make a speedy return.

2. HIGHER EDUCATION AND THE NEEDS OF THE ECONOMY

The SECRETARY OF STATE FOR EDUCATION AND SCIENCE, introducing NEDC(84)19, said that, although Governments were not qualified for manpower planning, he was forced into it because the University Grants Committee and the National Advisory Body for Local Authority Higher Education (NAB), in deciding numbers of places, were doing so at taxpayers' expense. Students also were supported by the taxpayer, thus blunting approaches based on the market. Nevertheless, the trends were modestly healthy, with larger numbers of students interesting themselves in engineering and related subjects. He had given guidance to the UGC and the NAB involving a 2 per cent switch of places (and a bigger switch of finance). This should increase the throughput of engineers from about 10,000 to between 15,000 and 16,000 by the end of the decade; the division between types of technology might still not match the needs of the market; as to whether the scale was sufficient, opinions were still divided and consultation, including with the Engineering Council, was continuing. There were many difficulties in producing such a programme: employers were not good at signalling their needs in advance; pay levels might not seem attractive; and lead times were long.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY, referring to NEDC(84)17, stressed the need not only for vocational skills, but also for technically literate managers. But the signals from the market were out of phase with the underlying needs; better links were needed, and industry should take the initiative in offering careers which were more attractive than those derived from the redistributive activities of Government. Sponsorship at a realistically generous level would be one means of attracting the ablest youngsters into the disciplines which industry and commerce wanted.

MR YOUNG, referring to NEDC(84)25, said that initial education and training should not be too detailed, because the direction of technological development was not known; further courses and conversion training were essential. The Technical and Vocational Educational Initiative (TVEI) was one way of bringing people back into higher education; but there might be a tendency for employers to look for academic success instead of TVEI performance; similarly the universities ought to be prepared to accept qualifications other than O and A levels. The preoccupation with examinations was damaging to education. A particular problem was the shortage of teachers of technology and design.

SIR CAMPBELL FRASER was surprised at the suggestion that the market did not work - as it seemed to for more glamorous professions. He welcomed the thrust of the Secretary of State in favour of technological education, recognising that the views expressed by employers were often conflicting and relating to the short term. A broad base was necessary - specialisms could be acquired later at the postgraduate level and in career progression; in Japan the education of engineers was often highly theoretical, with specialist knowledge being acquired in companies. He supported the Secretary of State's switch and argued for an increased swing from arts to sciences; there was an unforeseen pay-off in advancing the intellectual frontiers. Employers accepted the need for rewards to be sufficient to attract and retain well-trained people. He was surprised at the lack of references to women.

DR McFARLANE also approved the general direction shown by the Secretary of State for Education. The needs could not be quantified precisely and, rather than passing this problem round various authorities, one could override the difficulty by agreeing that a 50 per cent increase in throughput was as much as could reasonably be planned within a three or four year timespan. Engineers had a difficult and challenging discipline in which any mistakes were obvious. Incentives needed to be effective towards the end of schooling - they depended on the facilities available and financial inducement, but jobs could not be guaranteed. He referred to the scheme for national engineering scholarships, which needed freshening up if it still existed.

SIR TERENCE BECKETT thought that signals were coming through more strongly than the market was being given credit for; electronic engineers were an example. But (in answer to the Secretary of State for Trade and Industry) the message was not necessarily getting through to universities. Furthermore, manufacturing had been through a bad patch, and this inevitably was part of the picture in young people's minds. Levels of pay were not sufficient to attract the most able - "express lifts" needed to be visible - but for many the level of pay was already too high. The trained engineer was not always capable of taking on jobs in general management; this led to ossification and fewer engineers on the boards of companies than in the USA, Germany and Japan. One need was to improve the (usually poor) careers advice in schools, which depended partly on the initiative and responsibility of local employers. It was necessary also to remedy the lop-sided culture of engineers, who were numerate but were sometimes unable to argue with accountants or handle customers; a wider spectrum of talent was needed. Although the climate had changed radically for the better already, a change in many of its elements was thus still needed.

The GOVERNOR OF THE BANK OF ENGLAND said that on his visit to Glasgow the previous day it had been impressed on him that there were not enough qualified people to man the new semi-conductor plant which had just been announced. We had failed to give priority to investment in people, rather than in the physical infrastructure. In his view the market signals had worked only too well - the standing of those who led in industry was low, and parents who were engineers recommended their children not to follow them. It would help if the prospects and profitability of industry improved. Technological qualifications were more difficult to acquire than financial ones (requiring higher mathematics and not just the ability to add); engineering was as valuable and mind-stretching an education as the humanities. Degrees or National Certificates were necessary now for operatives as well as managers, and links between industry and universities were important.

DR MAIN thought that the shift in the climate in favour of technology might even be too strong; he suggested also that the technical aspects of engineering training were the important ones and that general managerial and financial skills could be added later.

The SECRETARY OF STATE FOR EMPLOYMENT thought that market signals were flashing strongly and included the number of young millionaires who had started their own electronics businesses. The shortage of electronics specialists was acknowledged in his own practice of issuing work permits freely for overseas recruits. But the need for other sorts of engineer was not equally clear. It was necessary also to change the practices which made it difficult for graduates to move into factory management; this tended still to be reserved for those who had gone through craft apprenticeships for which (more able) graduates would be likely to be ineligible on grounds of age, putting Britain at a competitive disadvantage by comparison with Japan.

SIR WALTER MARSHALL thought that the present direction was right, that the signals were in place and that it was important to persevere. He agreed that society attracted the people with brains into the "glamour professions" and that technological education was pre-empted by physics and chemistry, where Nobel prizes were to be won. Engineering had to be seen in its broadest sense, including activities such as software engineering. The expansion of the universities had been a social disaster, because a pool of people of abilities which were used productively in Europe and Japan had been diverted into social sciences, where their output was negative. He did not agree with Mr Young that the examination system was in a mess and that an alternative would be better. He was sceptical about the pursuit of fundamental science in "stand-alone" institutions, since they always recommended more of it, regardless of the overall needs. By contrast, there needed to be more movement between disciplines. Although the restriction of funds for universities was a blunt instrument, and in the short term resulted in the movement of those whom the universities could least afford to lose, it was one way of bringing about a better balance in the long run. He also drew attention to the value of bringing women into technological careers (including the Royal Navy). There had, however, been progress: one shipyard now employed more graduates than the whole industry had done a decade ago.

The SECRETARY OF STATE FOR THE ENVIRONMENT said that his grandfather had been the first Professor of Engineering at Oxford, and had commented on the hostility to the "rude mechanicals"; that problem had not disappeared. But it needed to be recognised that some areas of engineering, for instance to do with construction, were no longer offering adequate careers because of the drop in work-load.

MRS WATERHOUSE said that career choices were often determined before O level and the educational system needed to be more flexible. The availability of suitable courses (eg a "thick sandwich") influenced decisions, as did the culture which directed women away from line management in manufacturing. She did not agree with Dr Main that management could safely be left to be learned on the job; there were possibilities for combining it with engineering, and we should consider Japanese practice; but there was a regrettable tendency for it to be an option for the least able.

SIR GEORGE JEFFERSON said that it would be wrong to concentrate too much on engineers themselves rather than on making the populace as a whole more conscious of engineering and of how an important part of our economic system worked. This meant starting with schools where the essential components were not just arts and sciences, but also technology. The long-standing shortage of software engineers, despite the high rewards received by some, showed how slowly the system responded to new needs and ways had to be found of increasing the response. Even within engineering, the problem was to persuade people to put specialist knowledge into useful directions, for instance linking design with production engineering; the microchip (requiring many different technologies in its design and production) was an example of how engineering was permeating into other areas and itself being permeated - a broadening of technology was taking place.

The MINISTER OF STATE FOR ENERGY said that, while the market signals might be visible in the high-technology industries, this was not yet sufficiently the case in areas employing basic engineering skills, such as fabrication for the off-shore industry. Secondly, he stressed the need to bring the demand and supply of technologists together, and referred to science parks as a way of doing this by linking companies with universities.

The DIRECTOR GENERAL said that there was an excessive assumption that engineers should be employed in jobs reserved for them. But the trend of the discussion had been different - that engineering was a general education valid for all. He agreed with this approach, the extra expense of which would have to be faced. Secondly, there needed to be greater emphasis on opportunities for further learning during working life; he supported the case for more conversion courses. Third, there was the problem of inadequate provision of training for graduates on entry to industry and for sandwich students; the Engineering Council's proposed solution - Government funding - was not necessarily the right one; it should be possible for employers to organise better support.

The SECRETARY OF STATE FOR EDUCATION AND SCIENCE, replying to points made, said that it had been one of the most constructive and perceptive discussions in the Council; he would study carefully the record of what had been said and follow up the various points.

The CHANCELLOR OF THE EXCHEQUER, in conclusion, said that the discussion had revealed that market signals were still being muffled by cultural ones; progress was, however, being made.

The Council:

- (i) took note of NEDC(84)17, NEDC(84)19, and NEDC(84)25.

3. SECTORAL REPORT: COTTON AND ALLIED TEXTILES (NEDC(84)18)

MR HOLLANDER, Chairman of the Cotton and Allied Textiles EDC, giving an illustrated presentation, said that the recession, the high value of sterling and the strategies pursued by some major groups had meant the demise of many firms between 1979 and 1982. The very diverse industry was now recovering, but it was highly capital intensive and employment was unlikely to increase. Basic commodity textiles such as grey unfinished cloth were now mainly sourced in the Far East. The industry now had to make distinctive products and to specialise in particular market areas. Innovative design capability and technological leadership to the best international standards were also needed. Imports from the Far East and Western Europe were increasing, in the latter case mainly as a result of an over-valued pound and the state aids that distorted competition in Europe. The EDC had completed an analysis of the apparel fabric market which showed the industry's need to get closer to its retail customers. A study of the finishing sector had highlighted the complex role of the merchant converter, a barrier between many finishers and the purchaser of finished fabrics which was hard to remove. The EDC had stimulated cooperative activity in exports and investigated public purchasing of cotton textiles. A future report would compare the design approaches of leading European companies with those in the UK; a project had been started to help firms with strategic planning; and the EDC intended to study the structure and prospects of the weaving sector. The EDC believed that they had helped to achieve closer relationships between the industry and its customers and that more retailers and apparel manufacturers now accepted the need for a sound home base for fabric supplies. They were making good progress in developing closer links with the merchant converters. Much effort was devoted to communicating the EDC's work to the industry, helped by an ambassador who had been instrumental in the early development of the Factory Development Committees. They hoped that Government would accept the need for help with new investment and strongly supported the British Textile Confederation's proposals - made 12 months ago - for an interest stabilisation and abatement scheme for approved capital projects. They urged continuance of the MFA and hoped Government would deal promptly with non-MFA disruption and seek improvements in the EEC's ability to respond to such threats. The UK's state aid packages should be structured sectorally more than regionally and should be comparable with others in the EEC. Purchasing by public authorities concentrated too much on achieving the lowest initial price, rather than on long-run value for money; they should adopt the Marks and Spencer philosophy of protecting their UK base while making it competitive with overseas alternatives. In time of national emergency there would need to be access to the whole chain of textile processes; a Government-funded study should evaluate this requirement.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY acknowledged the contribution of the industry to the economy, with (according to his data) output of £950m, exports of £335m and employment 45,000. The industry had been through difficult times, but now had shown some recovery. He welcomed the studies of commercial structures and marketing, but regretted that it was necessary to use public funds to demonstrate that companies needed to look after their customers. The sector was benefiting from the reduction of inflation and interest rates; exchange rates were beyond the control of the Government and one should beware of seeking to reduce them by action which might offset the short-term benefits. As for financial assistance, other sectors had also asked for help, and he would consider these together in the light of constraints on public expenditure. As for the state aids provided by other EEC countries, he understood that the French scheme was not continuing (MR HOLLANDER dissented). He was accustomed to argue forcefully about such schemes with the Commission; but they also wanted an assurance about the policies of the UK; the DTI was currently working on a re-packaging of aid schemes. He agreed that public purchasers should look beyond initial cost in seeking value for money and referred to the guidelines circulated by the Health Service Supply Council. Textiles would be covered by review of policies for national emergencies. Quotas under the MFA could not be exceeded; other quotas were more difficult to enforce. The MFA had been helpful, but no form of protection was without costs.

SIR TERENCE BECKETT said that the EDC was doing a useful job; it would be a pity, with reference to the Chairman's earlier remarks, if this sort of work were lost. The bounce in the pound in 1980/81 had done damage, and there were still problems in relation to Europe. He agreed that the only long-term solution was to make the shift up-market by improving non-price competitiveness. He commended the flexible and admirable approach to employee communications. He sympathised with the Secretary of State and the Chancellor of the Exchequer on the difficulty of acceding to the EDC's proposals for financial assistance; this put the emphasis on the need for investment generally and on current interest rates. Some of the equipment installed in the early 1970s would probably not be replaced, because of its poor financial return.

MR POPE asked whether there was a problem of public sector contracts not being broken down into a size which smaller firms could digest.

Responding, MR HOLLANDER said that there was no problem about access; the problem was the failure to build up relationships. Profitability was still not nearly sufficient to generate the capital-intensive investment needed. The assistance provided to the French industry had continued for several years after the Commission's ruling, and he believed it was still persisting in a "more acceptable" form. Regarding the exchange rate, it was stability rather than a particular level which the EDC thought important.

The CHANCELLOR OF THE EXCHEQUER said that the industry had contracted painfully; but it was now highly competitive and had its future in its own hands. It was easy for it to see only the advantages of a lower exchange rate. The EDC was doing much to help and he asked for the Council's appreciation to be passed on.

The COUNCIL:

- (ii) noted NEDC(84)18 and the Chancellor of the Exchequer's summing up.

4. EMPLOYMENT TRENDS IN THE US, EUROPE AND JAPAN (NEDC(84)24)

The SECRETARY OF STATE FOR EMPLOYMENT said that his paper was the first in the programme of work agreed by the Council on where the new jobs would be coming from; it provided factual background for the work on the UK which was to follow.

SIR TERENCE BECKETT said that there were gaps in the paper which he hoped could be filled after discussion at a technical level.

The CHANCELLOR OF THE EXCHEQUER said that time precluded substantive discussion at present; there would be future occasions to discuss underlying issues.

The COUNCIL:

- (iii) invited the Secretary of State for Employment to consider comments on NEDC(84)24 to be submitted by the CBI;
- (iv) agreed to take up substantive discussion at a later date.

5. TRADE PATTERNS AND INDUSTRIAL CHANGE

The DIRECTOR GENERAL said that NEDC(84)21 described broad patterns in Britain's trade performance, leading into two issues of great importance: innovation, and the consequences of North Sea oil. The background work, referred to as Annexes, had been circulated to advisers. Most sectors of manufacturing had improved their investment record during the 1970s, though during the last three years net investment in manufacturing had been negative. Much recent investment had been directed to cost-cutting rather than to innovation. This might have been essential to survival, but had been at the expense of new products and markets based on new design, advanced technology, and higher value-added. Suggestions for dealing with this problem had been made in the paper on the engineering and components industries considered at the February meeting. We would derive benefit from the North Sea for many years; but, as production declined from its current peak, it would be necessary to return to a surplus in the balance of trade on manufacturing; the gap could not be filled by services alone. As the CBI had pointed out in their paper on non-price competitiveness in January, innovation required investment in product development as well as plant. It might be possible for the Office to produce a "company use of resources" package to help companies to analyse their own situations and get the issues at stake understood by all concerned. Secondly, while noting the trend of DTI support already in favour of innovation, he suggested that it might be reinforced by looking again at the case for

increasing private funds available for innovation. He referred again to his suggestion, made earlier, that there might be grants for a period, perhaps three years, to cover say 50 per cent of the cost of employing R&D staff in medium-sized and small firms. The Technical Change Centre had recently pointed out that the improved tax treatment of investment in plant and equipment had shifted the balance away from R&D, and this needed to be restored.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY said that NEDC(84)21 was most interesting and realistically recognised the contribution of services to the economy; the opportunities in all sectors, even those in overall decline; the importance of new technology, even in old industries; and the significance of better working practices and new products and processes. The paper was right to point out that there was no unique relationship between investment and performance, and that it was the quality and use of investment which mattered; it was also right that investment in hardware could be less important than that in the various aspects of non-price competitiveness. He welcomed the apparent endorsement of a non-sectoral approach, but he believed that grants for R&D staff were unlikely to be as cost-effective as broader support for innovation generally. Caution was also necessary about providing advice to companies on how to manage themselves better.

SIR CAMPBELL FRASER said the paper matched closely the views of the CBI. It rightly referred to the association between manufacturing and services, and stressed the importance of innovation. But the fit between innovation and performance was not perfect and the case for Government assistance was greater when the activity was further away from the market. The responsibility should be with companies, and he did not think that the Government should pick out R&D for new types of support to the exclusion of other essential elements.

MR POPE said that small companies had difficulty with innovation, because banks might call in loans just when benefits were beginning. He thought the DTI's advisory services ought to be developed - small firms would be willing to pay a fair share for what they could not afford individually. Such advice might provide ideas for introducing technology without excessive financial "front-end loading".

DR McFARLANE also noted the investment in cost cutting. We were unlikely to make the transition to services quickly enough and, when people were a fixed cost in the nation, it was wrong to use so much of the oil to buy foreign manufactures which we could make ourselves. He doubted that the problem was a shortage of expenditure on R&D - we were not short of ideas, but lacked the confidence to invest in them. What was necessary was to make investment in output more attractive, as against retention of piles of money. The paper on textiles had referred to the relationship between Marks and Spencer and its suppliers; it was effective because of assurance of demand, which was also why farmers had invested.

SIR WALTER MARSHALL said that it was important that we did not think that manufacturing was finished. He was concerned about the old-fashioned British view of research and development, which was to create a department under a director and hope that this would yield products. It was important that top management looked for innovation and decided what R&D was necessary. The UK was prone to make the mistake of adopting technology-led rather than market-led development.

MR YOUNG said that we must look to the small firms for increased employment; the Enterprise Allowance Scheme was assisting people to start up their own businesses and attracting 1000 applications a week. People were more flexible than was supposed, and there were examples of those who were leaders in high technology even though they had no formal education.

The SECRETARY OF STATE FOR EMPLOYMENT agreed with Sir Walter Marshall on the importance of customer-led research and development. Getting products developed on time was a problem; computer-aided design could help with this, and computer-controlled production could shorten the length of production runs and reduce lead times.

MRS WATERHOUSE wondered whether R&D sufficiently covered design. The reliability of domestic products and of cars had improved; but manufacturers were slow to go for the new designs (and designers) which customers wanted.

The DIRECTOR GENERAL agreed that the whole process of product development and innovation was important, but R&D was a component in it and our private investment in R&D was less than that of our competitors. He took Dr McFarlane's point on the need for confidence to invest; perhaps this was something the CFI might consider. The difficulty was how to generate confidence. Regarding the 'use of resources package', this would reflect good practice coming out of the EDCs which could assist companies in communicating about the issues before them.

The CHANCELLOR OF THE EXCHEQUER thought it unnecessary to argue over innovation versus cost-cutting; both were vital, and he was grateful to the Director General for tabling the paper.

The Council:

(vi) took note of NEDC(84)21.

6. NEDO BUDGET 1984/85: ACTIVITIES, FINANCE AND STAFF (NEDC(84)20)

The Council:

(vii) took note of NEDC(84)20.

7. The Council agreed to the release of NEDC(84)17, 19, and 25; NEDC(84)18; NEDC(84)24; and NEDC(84)21.

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