A Strategy for Industry

Leon Brittan
The first and most important question is whether there is any need for a new strategy for industry. The answer depends on one’s initial premises. For if one believes that the transformation of British industry over the last decade provides a backdrop of industrial and economic success there may well be no need for a new strategy. Certainly British companies have significantly improved their labour, manufacturing and industrial productivity levels, with a significantly improved rate of return on capital employed. The effect of annual growth of 3 per cent – double the 1970s rate – is remarkable, and may enable Britain to move its sustainable long-term growth rate up permanently. Despite the real possibility of renewed inflation, the introduction of more efficient management and the elimination of endemic over-manning has provided a very fertile tranche of new opportunities for British industry to invest and compete in world markets.

The government has always avoided formulating an explicit industrial strategy, although it alone is capable of conceiving one. However, the absence of a comprehensive plan does not mean that there is no continuous view. The current approach is to create the conditions in which industry can flourish rather than replace the market or plan its development. The government inevitably affects the economic climate in which industry operates and takes a view on a variety of issues which affect industry. Current policy must be designed to assist the move away from old heavy industries to new services, in a way that recognises that the drive towards greater enterprise and initiative comes from profit retention in a stable economic environment where it is possible to plan and invest with
confidence. For certainty and stability are essential to getting industrial policy right.

The government can choose to influence industry in a variety of ways. The present approach has three integral elements:
(i) the setting of a favourable macroeconomic environment through the use of monetary and fiscal policy;
(ii) the encouragement of competition and the free market;
(iii) the moving away from nationalised industry to privatisation.

I believe that this approach is broadly right and that the essence of a coherent approach to industry is encapsulated in the title of an earlier pamphlet of mine To Spur, Not to Mould.

It is important to distinguish between industrial and economic policy, and it is economic policy that will always have the most important affect on industry. For economic policy creates the climate in which industry as a whole operates, while industrial policy works more directly in influencing the shape of individual companies and industries, either generally or sector by sector or company by company. While some governments have sought to bully, cajole or dictate to industry, it is economic policy that more significantly affects the prospects of individual firms.

Inflation, interest rates and the exchange rate are the real determinants of industrial confidence; taxation and industrial relations the key influences on industrial prosperity. If a big grant is made, its effect will be felt in a particular industry. But it is macroeconomic policy that affects industry most in all countries, with the exception of totalitarian or war economies. The prime challenge of industrial policy is to recognise that it operates best as a useful and important adjunct to economic policy, but to get the policy mix right so that proper recognition is taken of the different features of different industrial sectors.

Those who take a more corporatist view rely on mistaken analogies. The Japanese models where MITI prepares its ‘visions’ of the future and seeks to shape Japanese industrial development has not withstood academic scrutiny. Similarly, the highly developed links in Germany between the banking and the industrial sectors now look unattractive and appear to have ossified German industry. The corporatist German link-up was well-suited to the post-war period of reconstruction but has now outlived its usefulness; bureaucratic
regulation has stifled growth, productivity growth has slowed to 1.4 per cent over the last four years, while Germany’s labour force has become one of the world’s most expensive. It is British economic growth which has outpaced Germany’s over the last decade and it is the British economy that has discovered a new dynamism.

Yet, one should not ignore nor exclude the benefits that come from targeted assistance to remedy generalised deficiencies in particular industries. However, it still remains important to ask and examine whether government is doing what only government can in pump-priming the project rather than acting as leader. One area in which government is acting in this way is in design, where it has identified problems, obstacles and opportunities and has provided financial assistance so that particular projects might go ahead.

Another area in which the government can play an active and positive role is in regional policy, of which I was a strong advocate as Secretary of State for Trade and Industry. Indeed I believe it was a mistake to abolish automatic regional grants, and vigorously support the establishment of Regional Development Agencies (RDAs) in England, based on the Scottish and Welsh models. If RDAs are a good idea they should be set up in all regions; if they are bad they should be set up in none. It is irrational and inconsistent to set them up only in some.

It would be a mistake to deny that there are areas and sectors where the government’s market-oriented policy has not reached. These sectors could be greatly benefited by a market-oriented approach. One such area is the Dock Labour Scheme (DLS). While it is possible to see the historical reasons why the DLS was established and continues to maintain its grip on people, its effect today is to add significantly to costs and to prevent the rebirth of the inner cities. The abolition of the DLS would give a welcome boost to industry in the form of lower charges in the Scheme ports, which have seen their share of trade steadily decline from 84 per cent of cargo in 1965 to 68 per cent today.

There is a wide field for the operation of industrial policy. Privatisation has reaped considerable benefits and has succeeded in spreading popular capitalism. Yet privatisation is not just a matter of transferring ownership – it is also concerned with the subsequent handling of privatised industries and the stimulation of competition. Regulation remains an important component, but it is difficult in practice, especially in the case of privatised natural monopolies.
Nevertheless, the extent and adequacy of the regulatory framework established to control British Gas and British Telecom should certainly be examined anew, while electricity and British Rail should be similarly considered as their futures come on to the political and industrial agenda. Serious thought must be given to the question of whether it is right to turn a public into a private fiefdom.

It is similarly axiomatic that the government has an important voice and role on the question of research and development (R&D). The balance between publicly supported and privately financed R&D is of concern to the government activity in this area. However, it is debatable whether the post-war trend of relative decline in R&D resources will be reversed and whether enough has been done for Britain to catch up with her competitors. One problem is the concentration of R&D spending on defence, which consumes 40 per cent of Britain’s R&D personnel and 50 per cent of the government’s R&D spending.

While tax relief for R&D spending is an option – in Australia R&D spending attracts 150 per cent tax relief – it often fails to stimulate R&D spending that is genuinely new and original. A better solution is to target support for selected projects, like the DTI’s Alvey programme for information-technology research. The European dimension must also now be considered and R&D should be examined in a European context, with projects like EUREKA and ESPRIT playing a vital role and avoiding duplication. The proposals put forward by the Independent European Programme Group (IEPG) on a common European arms market and greater collaboration in procurement are also important advances in enhancing European R&D.

An industrial strategy must also have a view on education and training. The crude view that the aim of training and education is only to provide manpower and satisfy the needs of those who demand labour is not an analysis that works – one needs only to consider how medical education got it wrong or to understand the consequences for the quality of our labour force that will occur if the liberal arts decline. The government does have a policy on education and training and I welcome the Employment Training Scheme and the City Technology Colleges. It is self-evident that if we are concerned about skill shortages it is important to ensure the full introduction of women and ethnic groups to the workforce. The experience of a rising number of
women solicitors demonstrates the possibilities for unused potential and the need to encourage the work of the Equal Opportunities Commission and other related agencies.

In seeking to promote greater competition, governments become engaged in formulating a limb of industrial policy concerned with competition. It is important to have a clear and certain strategy, most spectacularly in the case of mergers and takeovers. The key issue in current merger policy is whether or not the merger increases competition. But this should not be the end of the matter, and in this respect the review of competition policy has been too narrow. It has not looked at the nature of, and the relationships between, the major agencies of competition policy – the Office of Fair Trading, the Monopolies and Mergers Commission and the DTI. When I was at the DTI as Secretary of State I found baffling the question of which agency or institution could do what and, while it might be the case that the regulatory framework set up in 1973 still works well, I would welcome a more thorough thinking-through of the institutional basis of competition policy and do not myself pretend do know what is the ideal answer.

On the question of the substance of policy, it probably is too easy to take over companies now and, while a lot of takeovers do have beneficial effects, the new rules on takeovers should shift the balance slightly in the direction of the defended. Institutionally, it clearly makes sense for the larger mergers to be considered on the basis of their effect on the whole European market, as the European Commission has been proposing.

Even without picking winners or developing a comprehensive plan, there can be a clear industrial policy. However, Britain does need to work out further her relationship with Europe. For we shall be in the Single Market by 1992 and we need a European dimension in the institutional sense. It is unsatisfactory for the EC to have to snatch powers instead of agreeing to a division of powers so that national powers can mesh with European power rather than conflicting with it. This approach is vital, not only in the field of takeovers. But even then it is for us to require the Community’s assistance in the opening up of barriers to hostile takeovers, the abolition of bearer shares, uncertain ownership and other similar impediments to a free takeover market. For the stimulation of enterprises and competition remain the bedrock of industrial policy.
Summary of discussion

The general approach
It looks, a participant said towards the end of the discussion, as if everyone here acquiesces in Leon Brittan’s conception of an ‘eclectic’ industrial policy and his rejection of comprehensive planning of the kind once attempted by George Brown and his Department of Economic Affairs. Is this true? The positive side of Brittan’s proposals – the lines of action which he himself supported – was in fact generally approved by participants, subject to the arguments over details noted below. But some felt that in reacting away from ‘corporatism’ to a market-centred approach he might have tipped the balance too far in the other direction and left some important possibilities out.

There is, one speaker said, an alternative view about Japanese experience and the role of MITI. Japan has had a very clear market strategy, whether governmental or articulated by market institutions. It has attacked particular sectors one at a time, and is doing so at the moment in banking. The Japanese are good at it: government and industry come together to arrive at a coherent Japanese stance. Something similar might be said about France. This is the way their societies work, and it may or may not be right for us: but at least we need to understand that approach and be able to counter it.

How, another speaker asked, did Brittan see the role of representative institutions such as the CBI in the Single European Market after 1992, given that policies are mediated through institutions, and was there a role for NEDO or possible new institutions? Countries like Germany and France, it was suggested, have a better understanding between the various sectors, like government, finance, and education. Another speaker asked what part action on pay might have in the proposed industrial strategy, given that, in spite of government exhortations and action on industrial relations, pay inflation had settled down again to its level of the 1950s and 1960s and showed no sign of going lower.

On these points, Leon Brittan made no concessions. Consensus in a country like Japan was partly a product of culture, but, as regards MITI, academic studies had shown that its policies could push industry into dead ends. His own experience as an official visitor to Japan had brought out the sharp difference of views between MITI and the Foreign Ministry. When he visited MITI, the Foreign Ministry official
accompanying him was left literally outside the door. He could see the point being made in NEDO or the CBI, but in the light of a long history could not back any change: he had no special plans here. Pay was indeed a key factor, and the government was justified in insisting on this. But pay inflation today was not the same as in the 1950s and 1960s. It was important that profitability and productivity had risen, so that people could say that they had earned what they were being paid – or at least some of it, for now they were going over the top and being paid beyond what they had earned. I believe, he said, in human rationality, and used to think that talking about this problem would help. It is not enough: but tight fiscal and monetary policies are the only answer unless we return to a pay policy, and Conservatives and Labour are agreed that we should not.

He underlined again that he was not in favour of industrial policy if this meant a George Brown type of national plan, picking winners, or deciding which sectors will flourish or fail. But he did favour a less dirigiste policy to assist and nudge in areas like manpower, education, or merger policy, against the background of the right economic policy. It was not possible to have an industrial policy without fitting into the background of economic policy, and the two must pull together, but it was useful to distinguish between them and get their relationship right.

The main part of the discussion was on particular aspects of the proposed industrial strategy and ways of implementing it.

Education and training
There was strong support for Brittan’s emphasis on education and training. The education system needed to produce ‘enough people of appropriate achievement’ and there was a ‘frightening gap’ on training. One of the main problems which recurred in PSI’s studies of the introduction of new technology was the scarcity of skills, in the sense not only of a shortage of people with specialised training but of a generally low level of skills compared to countries where students stay in education after 16. The root of the problem, one speaker said, is the system of education and our culture. Young people here want to leave education at the earliest opportunity, and the resulting lack of skills is particularly serious in view of the demographic trend. If in our culture, another asked, there is not the desire for training, so many other things get held back, so how do we change this?
But there were questions about the adequacy of what the government has done so far and about the nature of business involvement in education. Even the greatest admirers of the Employment Training Scheme, it was said, do not see it as a major contribution to closing the skills gap. How do we bridge the gap between the enormous problem and ‘pathetic little schemes’? The major responsibility for training lies with employers: why, then, with so much work to be done in training, are employers involving themselves in education by way of direct grant to City Technical Colleges?

Leon Brittan warned that direct international comparisons on education and training can be misleading: but he was not disputing that all is not well with higher education and training. He agreed with the point about early leaving: the right policy was to make education more interesting because more rigorous, with less waffling, and he applauded the government’s current move on standards. The point about the demographic trend underlined his case for making more use of women and members of ethnic minorities, for both these groups were underused here by comparison with other countries. There had been a reason for delay in tackling the training gap. While unemployment was high, the focus had been more on that than on skill shortages: it was difficult to point in two directions at once. But he was not clear just what should be done now. Was it possible to think of a scheme different from the present one which would not be dwarfed by the problem? He would welcome a new focus on this. But he rejected criticism of the CTCs and the ‘direct grant’ approach. The old direct grant schools did a very good job — and CTCs do not select by ability. Though not a solution to the whole problem, they were a contribution towards a solution.

Research and development
The civilian R&D programme, it was said, is disappointing by comparison with our competitors: too much goes into defence. The government can do something about defence, but why is industry so slow? The reason given used to be lack of profits: but industry is profitable now, and even very profitable companies may do little R&D. Brittan commented that we should remember that profitability is only recent: but some nudging may be needed.
Finance
There was argument over the role of financial institutions in supporting business and over the effects on business finances of general economic policy. Was there a link between the ‘primitive’ but loyal and committed support for companies by financial institutions in Germany and industrial success? Do we perhaps have an over-sophisticated system of financing, obsessed with mergers and takeovers: one where the managing director picks up his *Financial Times* each morning and worries over his share quotation? How much truth is there in the allegation that British banks take a shorter-term view than those in competing countries? People interviewed for PSI’s new technology studies claimed to be at a disadvantage against countries like the USA, Japan, and France because long-term pay-off is disregarded and share values fall if a company announces a long-term project, and also because of high interest rates: these may not stop people spending on their credit cards, but high real rates do have a big effect on long-term investment. People also complain of exchange rate policy and the effect on exports of the high level of the £: the government, they tend to say, lectures us over an extra one or two per cent on wage rates, but the high £ makes a bigger impact. In other words, they tend to see problems of competitiveness not as matters of industrial policy but as coming from the economic policy background.

Participants from the financial world challenged these arguments. Market capitalisation in the UK is five times that in Germany, where public companies count for less and only 220 are quoted. The German system might be cosier and minimise the chances of a takeover, but our system is healthier. There had been no shortage of long-term finance in the last five or six years, and the banks were in cut-throat competition. But one of these participants drew attention to the recent book by George Goyder on *The Just Enterprise* querying the whole basis of share ownership and asking whether the joint stock company is the best form of ownership today.

Leon Brittan agreed with these counter-arguments and added others. The ‘primitive’ German system of financing had been marvellous after the war when institutions could support only a limited number of companies in embryo, but lacked flexibility: this was not a path to take. Though the cosy approach is attractive, ours is healthier: there are indeed far more public companies here. The tendency in
Germany – in Bavaria, for example – is away from the monolithic influence of banks, and this proves the more successful approach. There is no shortage of long-term finance, nor did the Wilson Committee find a financing gap. Interest rates will have to stay high till inflation comes down: there is no other means to this. The £ was too high in 1980/1, but not now: some people in industry say that it is now at a fair and competitive level. We could, however, have the same exchange rate with lower interest rates by joining the European Monetary System: that is a policy to be argued out. On Goyder’s point, he accepted that the joint stock company might have a limited shelf life.

Regulating monopolies

Picking up Brittan’s comment about the risk of exploitation by natural monopolies, a speaker said that, if the argument for privatisation is that it sets managers free, then it is not obvious to managers that it is good for enterprise to have interference from an office of public regulation. There was a view in the gas industry that the advantage of privatisation lay in not having to go to the Department of Energy: but some managers now wished that they had the Department of Energy back, because the scope of the regulatory body’s rules was so narrow.

Leon Brittan agreed about the danger of exploitation by natural monopolies: he would like to deny them the opportunity to exploit the consumer. But he was less impressed by the point about nostalgia for the Department of Energy. If the regulatory body is being effective, that, he said, is reassuring, and there is a point of principle here. The aim should be to intervene to combat monopoly, but nothing more. Someone must have the power to do this and to draw the line, and there are advantages in not having this done by the owner. As Chief Secretary he had been torn between not wanting the nationalised industries to lose money and, as a member of the government, being involved in their regulation. By all means let them make money – but legitimately.

International investment, takeovers, and the European dimension

Discussion of the European dimension was developed in several ways. Britain, it was said, is the first staging post for firms seeking a foothold in Europe and takeovers follow accordingly, whereas flows of investment from Britain are still primarily to the USA, not to Europe.
Will this change with the approach of 1992? The European Commission is stressing international cooperation for product development as ‘the imperative for international competition’. A trade union participant said that he was perplexed at union and Labour Party anxieties over international investment: in the long run it must be a good thing. But can there be guidelines? And we should not concentrate too exclusively on Europe: remember the USSR and the market offered by the 1.2 billion population of China.

Are takeovers in this country too easy? One speaker was interested to note that in the European Community mergers are more difficult. One barrier was the duty of companies to consult their workforce, for instance through works councils. What was Brittan’s view of this, and what might be the future impact of limits to takeovers in Europe on competition policy in Britain?

What in any case, it was asked, are Brittan’s views on the Euro-dimension of industrial policy? And is the British government too isolated in the Community? We seemed always to get into that position, and this could not go on.

It is partly true, Brittan said, that Britain is at odds with the rest of Europe, but one tends to hear only of the disagreements: European Community programmes are largely derived from our example. And thank God that the UK is indeed a first foothold for firms moving into Europe. It provides a stable environment and opportunity to expand, and the firms which come in create wealth and employment in Britain and show our own firms the way. He agreed that one might tilt the balance in takeovers more towards the defender, but takeovers are not simply a game of Monopoly – fingers can get burnt – and he did not accept the idea of using consultation with the workforce as a barrier. He was sympathetic to the general idea of consultation and involvement, and there was an employee interest in mergers and takeovers, but it would be a great mistake to use a legal obligation to consult as a barrier. Consultation should be extended, but to use it negatively would discredit the concept.

On the flow of UK investment to the USA rather than to Europe, it was true that the facts relevant to takeovers are easier to find in the USA. He welcomed support from the trade union side for British overseas investment, and did not mean to suggest that concentrating on the European market meant neglecting countries like China. The problem with such countries, however, was that they lacked money
and, in spite of recent modernisation, had bureaucracies which made it hard to reach agreement quickly with European companies; though he had noted in a visit to the USSR the eager response of an audience to a Western banker’s suggestion that they must learn to move faster (‘Glasnost is coming faster than Perestroika’).

In Europe, he said, there is a much clearer and sharper perception than in the UK that industry is at bay to the USA and Japan: Europe has to prepare to deal with the threat, and the question is how to do it. Should it be through specific programmes on the Euro-budget, or through creating a competitive market economy and so building up strength to meet the challenge? In his view, it should be a bit of both.

Do not overspend on projects like EUREKA, but, on that condition, they are fine. When he was at DTI his reaction to EUREKA was – nonsense, why can’t the big firms get on with it themselves, why do they need government? But his reaction had been wrong. Governments came in as marriage brokers, looking at a group in the market place which was failing to achieve.

The psychology of British business
Culture, as noted above, was mentioned as a factor in educational achievement. Following a similar line, one speaker asked whether we should research the psychology of British business. Why does business invest so little in R&D, and what of the long- and short-term view of financing? There is a myth, he said, about markets and free enterprise. The principals (but only the principals) walk away from business disasters. Is it the case that managements are cushioned, and so prefer to play safe? Should we research the dynamics of their decisions?

Maybe, Brittan said, we should study the psychology of industry, but he would not know if this would give useful results. He was not sure that management is cushioned against the market – there are casualties in takeovers – but this might be a factor to take into account.

Small business
Brittan’s presentation, one speaker said, had omitted policy for the small business sector. Till recently, government had failed here, in areas like deregulation, provision of buildings, fiscal policy or information on best practice, but this was now being tackled. From having the lowest birth rate of small businesses in the West, we now
had one of the highest. Another suggested a new policy of not taxing small businesses so long as the money remained in the enterprise. Brittan agreed that he had not specifically mentioned policy for small business, or indeed policy for a number of other areas. This, he said, is important, and seen to be so by the European Community. The reason for supporting it is not idealism (‘small is beautiful’) but because what stands out in other countries, like the USA, is the greater role of small business by comparison with the UK. But he had reservations about the proposal on tax for small businesses: it would be necessary to monitor that the money left in was well spent.

**The focus and diffusion of industrial policy**

Finally, Brittan accepted points made by participants about the level at which industrial policy should operate and diffusion of understanding about it.

Would it not make more sense, one speaker said, to look at industrial policy from the local than from the national level? At local level it was easier to see what was going on and to admit the need for a policy. Brittan agreed: at that level, policy is visible and comprehensible and can proceed by consensus rather than the coercive power of the State.

Another speaker stressed the importance of publishing government papers to define the objectives of industrial policy. Again Brittan agreed: governments should let people see what they are doing.