

PO-CH/NL/0083

PART A

Part A

**CONFIDENTIAL**

(Circulate under cover and notify REGISTRY of movement)

Begins: 9/3/87.  
Ends: 18/11/87.

and APPOINTMENTS IN CONFIDENCE



PO -CH /NL/0083



PART A

Chancellor's (Lawson) Papers:

THE NATIONAL ECONOMIC  
DEVELOPMENT COUNCIL

PO -CH /NL/0083

PART A

Disposal Directions: 25 Year

*[Signature]*

28/7/95

From: The Rt.Hon. Sir Keith Joseph, Bt., C.H., M.P.

1. Cathy  
2. Personal folder?



The Rt.Hon. Nigel Lawson, M.P.,  
Chancellor of the Exchequer.

9th March 1987.

Dear Nigel,

As I told you, I have set up and am chairing a small group of Peter Carey, Eddie Nixon, Marcus Sieff and, from the Bank of England, Jonathan Charkham, to seek ways to encourage co-ordinated product development so as to increase sourcing in the UK at best international standards of value for money, quality, price, delivery, etc.

One of the subjects we have discussed is the scope for British demand to be connected to potential British supply where at the moment supply tends to come from abroad. Both the advice given to me in Bovis - where I am now a consultant - and the views of those on the little group agree that the Little Neddies can be, provided the Chairman is effective, a useful vehicle for making such arrangements.

I am only writing to you about this because if, in due course, the survival of NEDO itself comes under consideration I would not like you to think that I am arguing for its survival. If it were to be abolished the work now done by the Little Neddies could surely survive, if thought fit, within the private sector.

I am copying this letter for information to Margaret Thatcher.

No need to acknowledge.

Yours ever,

Keith

Paul  
Tax

Thank you for your letter of 9 March. I am sure you are right to be concerned about the way in which the Little Neddies are being run. I am sure the 'settled' NEDOs should be dismantled to help avoid any project in the way of your group. Equally, I agree that this is no way to run a group. I agree that you should be given the job. cc PM

FUTURE OF NEDC

CONFIDENTIAL

1 Alex  
2 C

minute to  
issue?

*1 8th in  
min grant  
of POM w  
improve the  
BT will be all  
to letter  
this*

CHANCELLOR OF THE EXCHEQUER

From: N MONCK  
Date: 8 May 1987

cc Sir P Middleton  
Mr Burgner  
Mr P Gray  
Mr Wynn Owen

CR 8/5

FUTURE OF NEDC

You asked for a draft minute to send to the Prime Minister setting out the case for abolishing NEDC. As she may be difficult to persuade, you may want to get Lord Young on your side if you have not already done so before sending it. You could then consider mentioning his views in the minute.

2. You also asked for comments on the suggestion that, if we cannot abolish NEDC, you should cede the Chair to the Secretary of State for Trade and Industry. Sir Peter Middleton has commented that this would be very dangerous, since we could then find that resistance to arid macro-economic discussions would crumble. There would also be increased risks of expenditure pressures developing. Moreover, if we were also to transfer NEDC to the DTI Vote, which would be a logical consequence of such a switch of the Chair, it might give DTI a bigger say in macro policy than you might wish. DTI would have neither the motivation nor the competence to influence the agenda or the briefing on Treasury lines; and Treasury officials' ability to put this right would be greatly weakened if you were no longer Chairman.

MONCK  
TO  
ALEX  
8/5

3. The draft minute contains an optional paragraph in case you feel you should deal with the Prime Minister's concerns about depriving senior trade unionists of status. You will clearly want to consider whether to offer, as the draft minute does, to hold occasional meetings with senior trade unionists as one way of allaying this fear.

4. As an alternative to switching the Chairmanship other reforms of the Council could be imagined, eg Council meetings only held three or four times a year, or by trying to get the CBI and TUC to contribute most of the funding of the grant-in-aid as a condition of continuing with the Council. But all such ideas have significant disadvantages - mainly risks that NEDC would become a greater source of embarrassment and pressure than it is now - and in our view do not meet the more fundamental criticisms of the Council which point to outright abolition.

5. It therefore seems best to go all out for abolition, while preserving the work of some of the best "little Neddies". On this basis we are continuing to work up a note on the mechanics of abolition as requested in Mrs Ryding's minute of 21 April.

6. The draft does not mention German concerted action meetings because the position is not clear enough. We understand that the last meeting was in the summer of 1986. No meeting has been arranged since then, although one would normally have been held by now. Mr Bangemann is the only Minister to favour a meeting. But so far the meetings have not been formally abolished.

7. I attach a draft minute, which is largely the work of Messrs Burgner and Gray, to the Prime Minister.



N MONCK

CONFIDENTIAL

**DRAFT MINUTE FROM THE CHANCELLOR****TO: THE PRIME MINISTER**

## FUTURE OF NEDC

When we talked about the possible abolition of NEDC recently you expressed some doubts. I have been giving this further thought. My own view remains strongly in favour of abolishing NEDC while retaining the more useful of the EDCs (the little Neddies).

2. [First and foremost] NEDC is a survival from the past, a relic of corporatism which is now utterly discredited. It was set up in 1962 [in totally different circumstances] and ushered in an era when macro-economic and industrial policy was seen as a matter for negotiation and bargaining between Government and "the social partners". We are light years away from that approach. It is symptomatic that it is the Labour Party who want to use NEDC as a basis for a National Economic Assessment.

3. Second, maintaining NEDC involves a [very] large resource cost both for Ministers and civil servants and (unlike the MSC) provides no useful output. [The] six Cabinet Minister members are expected to attend for 10 or 11 half day meetings a year, although there are <sup>- perhaps not surprisingly -</sup> increasing absences and substitutions [as colleagues recognise that the meetings are largely a waste of time]. Nonetheless the Ministers concerned have to deal with a steady flow of papers as a result of the NEDC. Preparation for council meetings and follow up also absorbs considerable civil service resources, often at senior level. The main work of maintaining the NEDC machinery falls on Government and NEDO. The input by CBI and TUC is comparatively small.

4. Third, the public expenditure <sup>cost</sup> [involved] is substantial, some £7-8 millions a year. Abolition might not save all of it, because we would need finance for those EDCs it was decided to keep and some supporting NEDO activity. But a useful saving of around £4 million should be possible.

5. Fourth, NEDC offers a monthly platform for publicity which is of much more use to our opponents and critics than it is to us. [In particular] It provides the TUC with a unique national platform. The risks are virtually all downside, and we are constantly vulnerable to press stories of public rows and embarrassments through leaked papers. With a lot of work we sometimes get a good press from NEDC meetings but we could easily find better ways to get our own message across.

6. For all these reasons I regard NEDC as an organisation that has long outlived its usefulness. The immediate post-Election position gives us a window of opportunity to end this anachronism. If the Council was allowed to meet again after the Election, we would have missed our best chance in the whole of the next Parliament.

7. I recognise there are possible fallbacks - fewer meetings, reduced funding, changed membership or a rotating Chairmanship. But they all have significant disadvantages, and do not address the fundamental criticisms. I firmly believe outright abolition is the right way forward.

[David Young supports me in this view]

8. [Finally I do not think that the decision should turn on fears about depriving senior trade union leaders of status. By maintaining the work of the better EDCs in some shape or form we may well continue the dialogue with trade unionists - it is only the "Neddy Six" who will lose out. If more is needed, I would be willing to meet the national leaders on

occasions and on particular topics, eg around the Budget, as indeed I do at present. This would be much more economical than continuing with the charade of monthly NEDC meetings.]

N L

CONFIDENTIAL



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C/Content for Nick to proceed as in para 9?

I am content with what you've written to me but with the gloss. If, having been written to me as a TUC report - as they say, will - then at the same time as it is sent to the press. OPINION of the TUC will be given to the Commission for their account. own. ME

See the report - as they say, will - then at the same time as it is sent to the press. OPINION of the TUC will be given to the Commission for their account. own. ME

From: N MONCK  
Date: 14 May 1987

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton  
Mr Byatt  
Mr Burgner  
Mr P Gray  
Mr Mortimer  
Miss Barber  
Mr Wynn Owen

CR 15/5

NEDC : THE TUC, THE GOVERNMENT AND THE EC ANNUAL ECONOMIC REPORT (AER)

This minute seeks your views on handling a question which came up at the NEDC Steering Group on Wednesday. It is very tedious but could become sensitive.

2. David Lea raised two issues apparently on the instructions of the TUC Economic Committee. First, the TUC had been asked by the European TUC to inquire or complain about the Government's reaction to the Commission's request for a report on the economic measures they have taken to implement the "co-operative growth strategy" and support for consultation with the social partners at national level. This pressure is linked to the downward revision by the Commission last February of the forecast for average growth in the Community in 1987 from 2.8 to 2.3 per cent, the likely failure to reduce aggregate Community unemployment, and the Community's inclusion of Britain as one of the three European countries which "could contribute to reinforcing European growth".

3. The TUC's Budget submission included the following:

"The TUC has urged the Government to add its support to the Commission's proposal and start national talks through the National Economic Development Council. The Government has so far turned its back on the TUC's offer and shut its ears to the calls from other European Governments to establish such a dialogue at national level between trade unions, employers and Government."

4. At the Steering Group I referred only to the narrow question of the Government's report to the Commission, saying that I understood the Government would be submitting a report. I did not state this categorically, because I thought I should consult you about the possible request from the TUC to see the Government's report or to have a reply to its request for a national dialogue.

Proposed handling

5. I propose to write to David Lea confirming "that the Government is sending the report the Commission has asked for". It would be convenient if the TUC would leave it at that.

6. But if my letter prompts a request to see the report it seems to us that the lowest profile thing to do would be to circulate the report to the TUC, the CBI and the Office for information. There is little new in it that could lead to new subjects of controversy or significantly intensify existing ones. The chances are that most people would find it pretty boring whereas there could be a minor scene if you refused to let the TUC and CBI see it for information.

7. If you were concerned that circulating documents of this sort might set an unwelcome precedent, the alternative would be to refuse to show the TUC the report and to argue that it has been recognised by the Council of Ministers that the form of social dialogue must take account of the particular circumstances in individual countries. The UK Government's approach to these issues has been clearly set out on many occasions, and discussed in a tripartite forum most recently in the post-Budget discussion at the April NEDC. The next step is for the Commission to distil contributions from member governments, before discussions at Community level, involving all the social partners, planned for later this year as part of the run up to the next AER.

TUC request for an Advisory Committee on Employment and Unemployment Statistics

8. The second point David Lea raised was the failure of Lord Young to answer the TUC's proposal that there should be an Advisory Committee on the lines of the one for the RPI to see fairplay on the unemployment statistics. DE officials are reporting this to Lord Young. They recognise that both issues could be controversial during the Election campaign.

Conclusion

9. Do you agree that I should write to David Lea on the lines of paragraph 5 above and, if pressed, let the TUC and CBI see the Government reply? An advantage of this approach would be that if the TUC pressed the point about the national dialogue we could simply refer to paragraph 2 of the report which you drafted. A copy of the report is attached (top only).



N MONCK

1986-87 ANNUAL ECONOMIC REPORT: REPORT ON POLICY  
MEASURES IN THE UNITED KINGDOM

As requested in paragraph 1.10 of the 1986-87 Annual Economic Report, the following is the UK Government's report on the important economic policy measures taken in the UK. The report follows the main headings set out in the Commission paper 11/97/87 of 18 March.

ECONOMIC POLICY MEASURES

1. The co-operative strategy: general stance

The Medium Term Financial Strategy (MTFS) continues to provide the framework for the UK Government's economic policy, as it has since 1980. Monetary and fiscal policies are designed to reduce progressively the growth of nominal demand, as measured by money GDP, so bringing down inflation. They are complemented by policies to improve supply performance by encouraging enterprise, efficiency and flexibility.

Steady pursuit of this approach has seen inflation come down sharply from a peak of over 20 per cent in 1980 to 4 per cent now. In real terms the economy has grown at a rate approaching 3 per cent a year on average since 1981, with little variation in the growth rate from year to year, and employment has increased by 1 million since mid-1983. The growth rate of output in 1987 is forecast to be 3 per cent. Unemployment has been on a firm downward trend since mid-1986, and this trend is expected to continue.

The buoyancy of public sector revenues has enabled the Government to achieve its long term objective for the Public Sector Borrowing Requirement - 1 per cent of GDP - sooner than would otherwise have been the case. This level of public borrowing will prevent the ratio of public debt to GDP from rising, even when prices are stable.

The best hope for maintaining the downward trend in unemployment lies in the continued vigor of the economy promoted by the

SR!

Government's policies. Moderation in wage settlements remains a crucial factor: settlements in the 1986-87 pay round have been lower so far than in 1985-86 and this is encouraging. The MTFSS provides as firm a guarantee against inadequate money demand as against excessive money demand, thereby ensuring that wage restraint will be translated into more jobs.

## 2. Social dialogue

Regular meetings of the National Economic Development Council have been held, on which Government, employers, trade unions and others are represented at the highest level.

## 3. Wages and the labour market

As indicated above, the UK Government's strategy on wages has been aimed at moderation of increases in real wage costs relative to productivity. In the public sector, financial limits constrain the amounts available to fund pay increases. The Government does not intervene in wage determination in the private sector, but has pursued policies, for example lower inflation and reductions in personal income tax, to create an environment conducive to wage moderation.

The UK Government actively encourages greater adaptability of wages, especially in relation to wage bargaining. There has been legislation to reform wages councils and the Fair Wages Resolution has been rescinded. The Government has called for greater regional pay differentiation - collective negotiations encourage the idea of "national" pay rates and often take no account of affordability, recruitment and retention or other variations in local labour market conditions. There is no statutory minimum wage - this would encourage an upward pay spiral and threaten employment as groups sought restoration of eroded differentials.

The Government has taken various policy initiatives in the field of employment and training measures to improve the flexibility of the labour market, in particular, the extension, after pilot

experiments, of the new Job Training Scheme which is targetted on the young, longer-term unemployed. This is one of the forms of assistance provided to the long-term unemployed under the Restart programme which now covers all people unemployed for 6 months. The Government has announced the nationwide extension of the Technical and Vocational Education Initiative in schools from Autumn 1987.

The Government has taken other recent steps to improve the functioning of the labour market. In particular, in the 1987 Budget it proposed a tax relief for participants to encourage the spread of profit related pay. The growth in profit related pay should, first, improve industrial relations and productivity, and, second, increase pay flexibility in the face of changing business conditions. In February 1987 the Government published a Green Paper 'Trade Unions and their Members' setting out the latest proposals in its step-by-step approach of encouraging sound industrial relations by introducing more democratic procedures into trade unions and making unions more accountable under law.

#### 4. The adaptability of other markets

In respect of goods and services, recent Government measures have included the following. A review of the law and policy on mergers and restrictive trade practices was set up in June 1986. The Transport Act 1985 removed restrictions on competition in local bus services, and the Administration of Justice Act 1985 removed solicitors' near monopoly of property conveyancing. The tax treatment of the Enterprise Allowance which is paid to people previously unemployed setting up in business was improved in 1986 and the annual rate of entrants is to be increased from 100,000 to 110,000 by April 1988. In 1986, the life of the Business Expansion Scheme which offers tax relief to individual investors in unquoted companies was extended indefinitely, and the small firms Loan Guarantee Scheme was extended until 1989 and the premium reduced to 2½ per cent. The LINK initiative introduced in 1986 provides financial support to scientific research carried out in collaboration between Universities and

Government and industry.

On financial markets, the UK abolished all exchange controls in 1979, and supports the Commission's objective of liberalising all capital movements in the Community by 1992. UK money and capital markets have provided open access for some time. In March 1986 the Stock Exchange opened up membership, by making it possible for members to be subsidiaries of non-member firms, and, in October, the "Big Bang" took place, which involved the abolition of fixed commissions and the move to dual capacity trading enabling the same firm to carry out both market making and broking functions. The UK welcomes de-regulation and creation of the internal market for financial services, but it is important that supervisory standards maintain pace with market developments.

#### 5. Monetary Policy

The object of UK monetary policy is to maintain monetary conditions that keep downward pressure on money GDP and hence inflation. To this end monetary policy is complemented by fiscal policy which is set so as to ensure a low level of public sector borrowing.

Average earnings have been rising 2-3 per cent faster than prices over recent years. Lower wage increases would have enabled a larger growth in employment. But the level of wage increases does not affect the Government's monetary policy objectives or its determination to squeeze out inflation.

The exchange rate has for some years played a key role in assessing monetary conditions. The 1987 MTFs reaffirmed that "a balance must be struck between the exchange rate and domestic monetary growth consistent with the Government's aims for money GDP and inflation". Six of the seven major industrial nations agreed in Paris in February that a period of exchange rate stability around current levels, a pattern of rates broadly consistent with economic fundamentals, was desirable, and agreed to work to that end. This agreement was reaffirmed at a meeting of the Group of Seven major industrial countries in Washington on 8 April. The Chancellor has stated that he would like the pound to stay around current levels.

Short term interest rates are the essential instrument of monetary policy and UK rates will be held at levels necessary to keep monetary conditions on track. The key to reducing interest rates in the long run is the defeat of inflation and the elimination of expectations that it will start up again.

## 6. Budgetary policy

In the 1985 Budget the Public Sector Borrowing Requirement (PSBR) for the year ahead (1985-86) was set at 2 per cent of GDP, and in the 1986 Budget the PSBR for 1986-87 was set at  $1\frac{1}{4}$  per cent of GDP. In the event the PSBR in 1985-86 turned out at 1.6 per cent of GDP, and the provisional outturn for 1986-87 was a little below 1 per cent of GDP. A PSBR of 1 per cent has been set for 1987-88 in the 1987 Budget, and the projected medium term path envisages no change.

The PSBR path in the medium term represents the Government's long term objective for the level of public borrowing, which has been achieved more quickly than previously envisaged. It reflects a prudent and cautious approach to fiscal policy which, with continued restraint in public spending, should be consistent with a declining burden of taxation and further improvement in supply performance. It is intended to hold the PSBR to 1 per cent of GDP as the proceeds from the Government's privatisation programme gradually decline as a share of GDP.

The Government's objective for public borrowing is consistent with a stable debt-income ratio when the ultimate objective of stable prices is achieved, and is thus sustainable in the longer-term. For the time being the debt income ratio is likely to fall slowly from a level which is relatively high by the standards of the main industrial countries.

The UK Government is committed to the reduction of taxation and in particular of income tax. It believes that cutting taxes is the single most effective means of encouraging enterprise and improving the prospect for output and jobs. By moderating

the growth of public expenditure the Government has been able to finance tax cuts and to reduce public borrowing at the same time because of the buoyancy of the economy and the revenue base. Taxes were reduced in the 1987 Budget as they have been in each year since 1981. Since 1979 the basic rate of income tax has been reduced from 33p in the £ to 27p and personal allowances have been increased by 22 per cent in real terms. The UK main rate of corporation tax has been reduced to 35 per cent, one of the lowest of any industrialised country. The Government's objective is to reduce taxes further when prudent and to cut the basic rate of income tax to no more than 25p in the £. The Government has introduced reduced rates of national insurance (social security) contributions for lower paid employees and their employers, and has abolished the national insurance surcharge payroll tax.

On public expenditure continued restraint is a crucial element of the MTFs. General government expenditure has fallen steadily as a proportion of GDP from its peak of over 46 per cent in 1982-83. The plans announced in the Government's 1987 public expenditure White Paper imply a continuing fall in this ratio.

Total public sector capital spending is now running at over £22 billion a year and continuing at around that level (in cash) in each year of the planning period (1987-88 to 1989-90). The planning figures make no allowance for allocations to capital spending from the Reserve; hence capital spending plans are potentially understated. 1986-87 capital spending forecast outturn is expected to be broadly level with 1978-79 in real terms and slightly above the 1985-86 level.

The Government is finding room for worthwhile public sector capital projects within the framework of the MTFs. In certain priority areas there have been substantial increases: for example, capital spending on the health service in England increased by 41 per cent in real terms between 1978-79 and 1986-87, and capital spending on motorway and trunk roads in England increased by 20 per cent in real terms over the same period.



## QUESTIONS OF SPECIAL INTEREST IN THE DIFFERENT MEMBER COUNTRIES

### Wage growth in the UK

Lower growth in average real wages will mean better prospects for employment in the medium term since the MTF5 guarantees there will be no shortage (or excess) of money demand. Settlements must be for employers and employees to negotiate in the light of the need to recruit, retain and motivate, and what can be afforded. The Government is playing its part in

- securing low inflation with the ultimate objective of price stability.
- sharpening incentives and improving take-home pay by reducing personal income tax and generally aiming to reduce the overall burden of taxation in the medium term.
- adopting a variety of policies directed at improving the functioning of markets.

Wage moderation remains the key to ensuring that better economic performance is fully reflected in lower unemployment, and there is no room for complacency.

CONFIDENTIAL

Content with NICK  
Monck's suggestion?

From: N MONCK

Date: 28 May 1987

CHANCELLOR OF THE EXCHEQUER

cc Sir G Littler  
Mr Byatt  
Mr Burgner  
Mr P Gray  
Mr Culpin  
Mr Mortimer  
Miss Barber  
Mr Wynn Owen

*Handwritten notes:*  
CE 28/5  
All options are  
Unsure about  
I support (c) is the best  
but, in wh. case  
can be given to  
Lea in  
Mortimer

*Handwritten notes:*  
IDT was not  
close to  
of it, in wh case  
the newspaper must  
or see a  
report, too.  
etc.

GOVERNMENT REPORT TO EUROPEAN COMMISSION ON "CO-OPERATIVE GROWTH STRATEGY"

As expected, David Lea has now asked to see the Report which the Government sent to the Commission earlier this month. When you saw my submission of 14 May (to which a copy of the Report was attached), you agreed that I should let the TUC, CBI and NEDO see the Report but said that it should be released to the Press at the same time.

2. Mr Culpin has now pointed out in the attached minute that it would be well outside the rules to issue the Government Report during the Election period as a Treasury press notice. He suggests three options in his para 4. I comment on these below.

3. Waiting until after the Election sounds convenient but would not be reliable. David Lea is likely to pursue the matter. It would then be difficult to justify refusing to hand it over and to do so would inflate interest in the Report quite disproportionately to its content, which contains nothing new. Moreover this could happen just before the Election, leaving little time to restore calm and taking an unpredictable form.

4. A press notice through Central Office would, as Mr Culpin says, look pretty odd and indeed baffling.

5. My preference on balance would be for (c). I would circulate the Report early next week. It is not clear how successful the TUC would be, if they tried to make tendentious use of this material. But they might perhaps try repeating the point in their Budget submission about the Government's unwillingness to have a dialogue with trade unions and employers, other than the NEDC meetings. If the TUC do make use of it publicly, IDT would give the Report to any paper that was interested enough to ask for it. Sir G Littler agrees and Mr Culpin is content.

N MONCK

FROM: ROBERT CULPIN  
DATE: 28 MAY 1987

MR MONCK

GOVERNMENT REPORT TO EUROPEAN COMMISSION ON "CO-OPERATIVE GROWTH STRATEGY"

Thank you for yesterday's minute.

2. I am afraid that, in the election period, we cannot issue the Government's report to the Commission as a Treasury Press Notice. It falls well outside the rules.

3. Nor, I think, could it be a Neddy press notice.

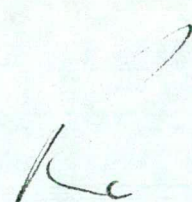
4. The main options for press handling are therefore:

a. to wait until after the Election;

b. to resort to a press notice through Central Office (pretty odd); or

c. to regard the report as being in the public domain and, as such, to give it to anyone who asks.

I leave you, as agreed, to put the choice to the Chancellor.

  
ROBERT CULPIN

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We also discussed the feasibility option of the CST taking the chair except at the twice yearly macro discussions

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

Sm

FROM: N. MONCK

DATE: 12 June 1987

cc Mr Burgner  
 Mr P Gray  
 Mr Wynn Owen

Paragraph 18 contains issues on which it would be helpful to have your views. Note of 6/6/87.

CR 12/16

NOTE @ M.

**NEDC : THE FUTURE OF THE COUNCIL AND THE EDCs**

This minute addresses three issues on NEDC/NEDO which require early decision:

- (i) first, and most immediately, whether to proceed with the **Council meeting provisionally fixed for Wednesday 1 July**, as NEDO will probably propose in the coming week;
- (ii) second, a possible further approach to the Prime Minister about the **future of the Council**;
- (iii) third, the further work you asked us to do on the **mechanics of Council abolition**, and on possible approaches to preserving the useful work of the EDCs.

**1 July Council**

2. Before the election you endorsed the objective of abolishing the Council. (My minute of 14 April and Mrs Ryding's of 21 April.) We saw considerable advantage in announcing it **before** any post-election meetings had taken place. The danger is that once the Council has met again, the process of abolition is made more difficult.

3. But, given the Prime Minister's initial attitude, any announcement about the future before the meeting provisionally arranged for 1 July (and particularly before the deadline for circulating papers of 18 June) does not now seem likely. So a decision on that meeting is needed on the assumption that the Council is to remain in being in the short term.

4. The options seem to be:

- (i) let the 1 July meeting proceed, but aim to follow it up before or after the summer break with any announcement about the future;

MONCK TO CH/EX 12/16

- (ii) find a pretext for cancelling the 1 July meeting and aim to make an announcement before another meeting of NEDC takes place.

5. A useful argument for cancellation could be heavy involvement by Ministers in the Debate on the Address. With State Opening scheduled for June 25, the debate will stretch through 1 July and is likely, on the 1979 and 1983 pattern, to conclude with the economic day on 2 July. So a meeting of NEDC on the morning of 1 July could be most inconvenient if both you and (perhaps new) colleagues are preparing speeches. Moreover, time is short. In 1979 the election on 3 May caused cancellation of the May meeting and the next NEDC meeting took place on 6 June (1 month and 3 days later). In 1983 the 9 June election caused cancellation of the June meeting, and the next meeting took place on 4 July (25 days later). A gap of only 20 days this time (11 June to 1 July) could reasonably be argued to be too short.

6. The argument, on this basis, would be that in view of the Debate on the Address, as well as other post-election business including in your case a new Finance Bill, Ministers do not have adequate time to consider the papers for a 1 July meeting, particularly the Secretary of State for Trade and Industry who may be new to his post (see para 7). As the Council does not normally meet in August and September, this might with luck give a lengthy breathing space before any possible Council meeting, in which to decide the future of NEDC and announce it. But pressure from Mr Cassels for a meeting, partly to avoid casting any doubt on NEDC's future, might be hard to resist until October unless it proved impossible to find another date before then. (The CBI might perhaps help to produce that so as to prolong the breathing space.)

7. The agenda provisionally arranged for July is:

- (a) Capacity and Investment - paper by NEDO;
- (b) Paper and Board EDC;
- (c) Competition Policy and Industrial Structure - papers by CBI and TUC.

We have seen a draft paper by Eltis on (a) but do not know whether papers (c) by the TUC and CBI are ready. The lead spokesman for the Government on all three items would be the Secretary of State for Trade and Industry, though on the competition element of (c) he could reasonably do little more than take note because the Review of Mergers and Restrictive Practices is still in progress.

Under either option for the July meeting we shall have to continue with preparatory work for future Council discussions in the Group of 4 and Steering Group (due to meet on 13 July and 24 July respectively) until any announcement is made. And to cancel the July meeting and then follow it up with an announcement of abolition could prove as awkward as continuing the 1 July meeting in a matter-of-fact, low key way prior to an announcement. But on balance we think cancellation would be preferable, and could plausibly be presented by reference to the Debate on the Address to post-election workload pressures, and in particular perhaps to the position of the Secretary of State for Trade and Industry.

### Approach to Prime Minister

9. You decided before the election not to send the Prime Minister the draft minute attached to my minute of 8 May. Lord Young already agrees with your line. But you may want to see what conclusion David Nickson has reached and to line up the new Secretary of State for Trade and Industry before approaching the Prime Minister again. You will then need to decide whether to send a similar minute (updated and possibly expanded to cover the position of the EDCs - see below) or to have another word with the Prime Minister first. Either way it would be important to make clear that you were proposing abolition of the Council on its merits and not because you wanted another Minister to take it over. It would cause you even greater difficulty if another Minister with different objectives took the chair.

### Mechanics and EDCs

#### (a) Mechanics

10. Two notes prepared by IAE in response to your earlier request are annexed.

... 11. The first (Annex 1) covers the mechanics of abolition. We have taken work as far as we can without talking to NEDO. There are points of some potential sensitivity in paras 2, 4 and 8. But so far no major contractual or legal difficulties have been identified about abolition of the Council, some or all of the EDCs, or NEDO, though the Annex makes clear that a number of details cannot be clarified until we talk to NEDO immediately after an abolition announcement. If the whole apparatus were to be shut down, it seems likely there could be significant redundancy costs in relation to the 200 staff, probably exceeding the annual £7 million grant in aid; for smaller contractions the impact would be broadly pro rata. After the initial costs there would be worthwhile public expenditure savings.

## b) The EDCs

- ... 12. Annex 2 deals with EDCs. You need to decide what to propose on these before you raise the question of abolishing the Council again with the Prime Minister.
13. Annex 2 assumes that the Council is abolished.
14. In parallel with our work, DTI have been considering in some detail the value of the individual EDCs. They have started from the opposite working assumption, that the Council continues in being (though we believe the Department is not unsympathetic to abolition).
- ... 15. The DTI's two assessments of their EDCs, done in 1986 and 1987, are reproduced in Annex 3. While about a half of the DTI divisions found their EDC useful or moderately useful, only a few in 1987 were willing to volunteer funding from DTI divisional budgets to continue the useful work of the EDC, should the Treasury confine its funding to servicing the Council alone, and none were willing to set up a similar standing tripartite committee. Nonetheless, two-thirds expressed the view in 1987 that bi- or tripartite ad hoc efforts of some sort would be likely to be sought by one or more of the parties to replace some of the work of their EDCs.
16. DTI officials have concluded that the beginning of a new administration would provide a natural opportunity for either the abolition or the "privatisation" of the EDCs. As Annex 2 demonstrates, these might amount to much the same outcome. But both involve withdrawal of public expenditure support for EDCs in the form of a separate grant-in-aid for NEDO, though DTI might choose to finance some share of any continuing consultative activity out of their departmental budget. These proposals are thus more radical than the suggestion in my note of 14 April, which envisaged the continuation of the present system of public funding for the EDCs judged to be useful but on a reduced scale. The DTI have reached their view, despite the results of their own internal surveys reported in para 15 above and in Annex 3: these suggest that the Government might be criticised for sacrificing the potential for improved sectoral economic performance through the EDCs for the sake of relatively modest savings.
17. Nonetheless we think that there is a good case for total or partial "privatisation", phased in over a reasonable period and Annex 2 spells out how this might be done.





MECHANICS OF NEDC (COUNCIL) ABOLITION AND THE POSITION OF EMPLOYEES ETCCOUNCIL ABOLITION

1. Status - set up in 1962 by Selwyn Lloyd and featured in the Budget that year. Only major subsequent piece of paper we know of is January 1984 grant-in-aid memorandum. Therefore assume NEDC could be abolished by simple announcement by Chancellor in the House (or even a press notice or PQ, though we think these options would be unsuitable).

Action - T. Sol' has looked at 1962 Budget speech and 1984 grant-in-aid memorandum for any snags or booby-traps. Has expressed provisional advice. Sees no obvious major obstacles in these documents. Advises that simple announcement in House would seem appropriate.

2. Pledges - no public commitments by Ministers to continue with NEDC beyond the Election. Chancellor's praise over past couple of years has been restricted to EDCs - eg in NEDC conference on 31 March 1987 spoke of "valuable work of little Neddys". PM at March NEDC said aim of NEDC remained to seek agreement on ways of increasing the rate of sound growth through the success of industry at home and in export markets" and she described meeting as "very constructive, very realistic". Possible her involvement in that meeting and other Ministers NEDC Jubilee commitments might be quoted back against HMG - eg Lord Young speech for Jubilee Conference spoke of "NEDC's 30th Anniversary".

3. Future Work - Mr Cassels Plan and Budget paper for the May Council mentioned a five year plan during the recent budgetting exercise. Treasury has not seen this and the noting of this Plan and Budget paper for 1987/88 below the line clearly cannot be taken as any endorsement. Any existing pledges within NEDC minutes to discussions at future meetings (eg infrastructure, management development etc) could be dealt with on a bilateral basis by relevant Ministers with specific, interested parties.

4. Appointments - it is customary for the Chancellor to issue invitations of appointment to serve on the NEDC for a two-year period. On abolition, these would all have to be rescinded by brief letters of thanks to each member of Council. In the meantime, it might be prudent not to send any out any new letters of appointment. For instance, the Chancellor has not yet written to Mr Nickson inviting him to serve another two-year term from May 1987. The CBI may shortly propose a successor to Sir Timothy Bevan, and the appointments to the Council of Mrs Waterhouse and the Governor of the Bank of England are also up for renewal after July.

THE POSITION OF EMPLOYEES etc

5. If the NEDC is abolished there will need to be some reduction in NEDO's staff of around 200 employees. But it would amount to little more than the secretariat and some economists largely employed writing papers for Council. Any further shrinkage will depend on decisions relating to the future of the EDCs - see ANNEX 2. This section simply examines the position of all employees in relation to the existing position.

6. Staff Breakdown - the attached note reveals as much about the staff spread as we know without consulting NEDO. Many factors are unknown - eg age and length of service of most members of staff.

Action - full cooperation of Secretary to Council (Mr Dixon) and his deputy (Mr Young) will be required immediately after an announcement, to work out precise details.

7. Staff on time-limited contracts - we think there are very few. Depending on contracts, there should be no major problem in giving notice and paying off as appropriate. Could be reasonably, but not excessively, costly. Key cases likely to be at top of office - eg Messrs Cassels, Eltis, Quilter.

Action - consult Dixon/Young immediately following announcement.

8. Mr Cassels - Only staff member appointed by Government. (All others, except for civil servants on secondment, appointed by NEDO.) 59 years old in October this year. We have his letters of appointment, which include provision for 6 months notice of termination of contract. Contract ends with the right to retire him (or his right to retire) at age 60, in October 1988. Probably a case for early retirement.

Action - T Sol's confirm EOG view that the 6 months notice point could be met by simply making payment of 6 months salary in addition to other early retirement provisions. It should be possible to cost this individual package in advance of any announcement. Presumably the Treasury Permanent Secretary would call the Director General in at the time of (or just before) any announcement, having also consulted/informed the Head of the Civil Service.

9. Civil Servants - thought to be a handful on secondment to NEDO. EOG thought HMT had two. One is Peter Dixon and the other, possibly, Liza McKinney (though she may be on a general COI net). Whoever they are, EOG confirmed HMT would reabsorb them. Not sure of secondees from other departments. Steve Earl in accounts and Anne Weir in NEDO press office both from DTI, though latter may be permanent transferee.

Action - if Chancellor speaks to the Secretary of State for Trade and Industry we might be able to check position with DTI. After announcement, check position with NEDO and/or other departments.

10. Permanent Staff - NEDO thought to contain mostly permanent employees on terms and conditions analogous to civil servants. T. Sol has pointed to superannuation rights' being basically the same as those of civil servants - reinforced by reference to "National Economic Development Council" as one of the kinds of employment covered in the Schedule attached to Section 1 of Superannuation Act 1972. We believe NEDO's redundancy agreement is identical to the Treasury's. In that case, redundancy payments for these individuals could be costly. NEDO staff thought to be largely members of ASTMS, so no major link with Civil Service unions. It may be the Civil Service could absorb some staff, but NEDO staff are generally not civil servants, so even if vacancies existed there could be problems of Civil Service Commission approval in absorbing them.

Action - following announcement immediate consultation to ascertain position and number of contractual and permanent staff.

11. PSA - If the Council is abolished, the Office will need less space, particularly if there is a reduction in EDC activity. We would need to reach an agreement rapidly with the PSA concerning rental and rate payments for the rest of the FY.

12. Other financial commitments - the grant in aid memo para' 19(ii) states that the Director General should not incur expenditure on a new service or any additional commitment involving a significant addition to expenditure in future years without the prior consent of the Treasury. Nonetheless, a number of contracts will be outstanding as regards projects in hand, employment of "ambassadors", catering, printing etc. Again, we cannot know of these until after an announcement.

13. Total Cost of Abolition - major cost would be any redundancies. Impossible to tell total bill, but, depending on decisions about EDCs, quite possible we could exceed the current year's grant in aid provision, assuming sizeable redundancy payments etc have to be made. Net savings in subsequent years (reduced grant-in-aid less extra pension costs) mean such an abolition is nonetheless worth pursuing on expenditure grounds.

## NEDO STAFF-IN-POST

The following is a list of NEDO's staff-in-post in April 1987 so far as we are aware. It attempts to give equivalent Civil Service grades as far as possible, plus any additional information we have on ages.

Open Structure

Director-General (Grade 1, Aged 58)	- 1
Secretary to the Council (Grade 3)	- 1
Head of Industry Division Director (Temporary Grade 3, Aged 57)	- 1
Non-executive director (P/T Grade 2, Aged 57)	- 1
Economic Director (Grade 2, Aged 53)	- 1
Manpower and Industrial Relations Head (Grade 4)	- 1
	<hr/> 6
Grade 5 (Heads of Divisions)	10
Grade 6 (including two p/t consultants)	8
Grade 7 (industrial advisers etc)	57
Support staff (EO equivalents, computer staff, finance, communications, marketing, typists, clerks etc)	118
	<hr/>
Total	199

THE FUTURE OF EDCs

This note examines three possible options to accompany NEDC abolition:

- (i) Abolition of the EDCs;
- (ii) Total "privatisation";
- (iii) Partial "privatisation" - ie with HMG prepared to continue financing an appropriate share of the cost of individual EDCs (probably one-third).

The note examines how each of these could be implemented, and the arguments for and against each option. Failure to pursue one of these options would imply the continuation of EDCs or successor bodies largely financed by public expenditure, but probably on a reduced scale and based on stricter value for money criteria. The result would probably be not unlike the present system.

(1) ABOLISH EDCs

2. Mechanics - the NEDC abolition announcement would also say that all committees would be terminated as soon as possible. Several other departments (DOE, MAFF, DE and DHSS) currently lead on a small number of EDCs, so relevant Ministers would have to be consulted beforehand.

3. Immediate abolition could not prevent one or more parties seeking to continue useful sectoral work on a bi- or tripartite basis. Surveys of DTI members of EDCs suggested withdrawal of Government funding could lead to efforts of this kind in up to two-thirds of EDCs. Individual departments might also wish to continue to provide resources for ad hoc bi- or tripartite work from within their existing budgets. So there may be some continuing minimal public expenditure involvement, though the vast bulk of the grant-in-aid (over £7 million p.a.) would be saved.

4. Manpower and Expenditure - all 200 NEDO staff would have to be made redundant in accordance with their redundancy agreement. Initial redundancy costs may well exceed the grant-in-aid for the current year. But there would be substantial net savings in subsequent years (grant in aid, minus additional pension costs).

5. The Advantages are:

- A clean slate and a logical accompaniment to NEDC abolition.
- Any residual work to be determined wholly on an ad hoc basis.
- Maximise public expenditure savings. Likely to be almost full amount of grant-in-aid (£7 million plus) following initial redundancy costs.
- Avoid uncertain approach of "privatisation" options, with their period of continuation for all EDCs and subsequent differing treatment.

The Disadvantages are:

- assuming some EDCs do useful work, Government would be open to the accusation of throwing the baby out with the bath water, for the sake of relatively modest savings.
- Upset may be caused to Chairmen and members of existing committees, who have given time voluntarily to such work.
- It magnifies the impact of the NEDC abolition announcement in a way the Government would rather avoid.

(2) TOTAL "PRIVATISATION"

7. Mechanics - under this form of "market test" HMG would announce itself willing to continue funding the EDCs to the end of the financial year (FY) (assuming this allowed at least 6 months), with all public sector funding (by way of a Treasury grant-in-aid for NEDO) ending at that point. Presumably the secretariats, and Government sponsor divisions where interested, would largely use the intervening period to seek non-HMG funding for carrying on any worthwhile work.

8. Several other departments (DOE, MAFF, DE and DHSS) currently lead on a small number of EDCs and HMT leads on the CIF, so relevant Ministers would have to be consulted before announcement of this option. HMT could, for instance, consider asking the CBI to absorb the work of the CIF into any follow-up to its City/Industry Task Force.

9. Successful "privatisations" would entail the secretariats of bi- or tripartite continuing work being either taken over and located within a specific trade association, company, or (less probably) trades union, or being funded wholly from subscriptions from such bodies, but remaining in a centralised secretariat wholly independent of Government. The latter would probably only be feasible in practice if sufficient private funds were forthcoming in time to fund a continued relatively high level of such activity. Even if an independent body did survive, wholly funded by private subscriptions, there would be a strong case for changing the names from "NEDO" and "EDC" to whatever the private sector subscribers wished.

10. Manpower and Expenditure - continued public funding until the end of the FY should allow time for private finance to come forward in appropriate cases (provided the period to the end of the FY is at least 6 months). Redundancy procedures could then be planned to come into effect by the end of the FY for all staff in those EDCs for which the parties were unwilling to provide funding.

(There may thereafter be some continued funding by departments who chose to finance some share of any continuing consultative activity out of their existing departmental budgets.) But the whole of the grant-in-aid of over £7m p.a. from the HMT Vote should be saved, following initial redundancy costs. Provision for these redundancy costs may have to be made in 1988/89 if HMG funding is to cease at the end of the current FY.

11. The Advantages are:

- A new departure on basis consistent with HMG's market-orientated approach and a logical accompaniment to NEDC abolition;
- continuance and form of committees to be determined on "market" basis by those directly involved.
- No presumption of continued Trade Union involvement, though they might be invited on to some new committees, or "purchase" membership through subscriptions;
- continuing work should be more streamlined, cost-effective and relevant to British industry;
- maximum public expenditure savings should be obtained, following end of Government funding and initial redundancy costs;
- if other parties show no real enthusiasm for saving many areas of sectoral work, by not dipping in their pockets, their ability to complain will be weakened, while illustrating the marginal use value of such work and lack of a real market for it.

12. The disadvantages are:

- New committees might never get off the ground, given possible loss of interest by Chairmen and companies following NEDC abolition and possible withdrawal of union support.
- DTI and other departments may want to support a few existing committees from within existing resources, which could weaken the consistency of HMG line on ceasing all funding at the end of FY.
- Upset may be caused to Chairmen and members of existing committees, who have given time voluntarily to such work.
- It could magnify and prolong the impact of the NEDC abolition announcement in a way HMG would rather avoid.
- HMG would be open to accusation that they were giving up supporting the potential for improved sectoral economic performance for the sake of relatively modest savings.

(3) PARTIAL "PRIVATISATION"

13. Mechanics - this option would be identical to (2), though HMG would be prepared to continue financing an appropriate share of the cost (probably one third) of any worthwhile, individual EDCs following the end of the current FY. The justification for one-third HMG funding for any residual activity would be that HMG has traditionally been only one of three parties involved with such work.

14. Presumably the secretariats, and Government sponsor divisions where interested, would largely use the remainder of the FY to seek two-thirds private finance for carrying on any worthwhile work. If definite financial pledges were not forthcoming, such work would not proceed.

15. Several other departments (DOE, MAFF, DE and DHSS) currently lead on a small number of EDCs. Relevant Ministers would have to be consulted before announcement of this option.

16. Successful partial "privatisations" would entail firm commitments of two-thirds or more private sector funding (for FY 1988/89) being found before the end of the current FY, 1987-88. The secretariats could then either be taken over and located within a specific trade association, company, or (less probably) trades union, or remain in a centralised secretariat wholly independent of HMG. The latter would probably only be feasible if private funds were immediately forthcoming in sufficient quantity to fund a continued relatively high level of such activity.

17. Manpower and Expenditure - Government could expect to make public expenditure savings greater than two-thirds of the current cost of EDCs, since two-thirds financing from others in some instances would probably not be forthcoming. Continued full HMG funding to the end of the current FY should allow time for proper redundancy procedures to be started up. These would then be put into immediate effect at the end of the FY for all staff in those EDCs which had not had pledges of two-thirds funding from non-HMG sources. Any HMG funding thereafter for individual EDCs would come from within departmental budgets, not from central HMT funding.

18. The Advantages are as in option (2) above, with the following qualifications:

- Partial HMG funding shows open-minded willingness by HMG to assist others in rescue of EDC work felt to be worthwhile.
- At least two-thirds public expenditure savings should be obtained, following full funding in current FY and redundancy costs.
- If other parties show no enthusiasm for providing two-thirds funding for sectoral work, their ability to complain will be considerably weakened, given HMG's readiness to provide one-third. Will illustrate starkly the marginal use value of such work and lack of a real market for it.

19. The Disadvantages are as in option (2) above, though qualified as follows:

- HMG would risk horse-trading on the exact financing of each item of residual bi- or tripartite activity. May be difficult to hold one-third funding line (eg if a Trade Association offered to fund



CONFIDENTIAL

half of the work of an EDC and no trades union sponsor came forward, how should the sponsor department respond?);

- DTI or other departments may say in some cases that they do not wish to support any continuing work from within their existing budgets, and may ask HMT for a PES transfer, including running costs increases in order to do so.

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ANNEX 3

**EXTRACT FROM PAPER BY DTI OFFICIALS****Views of DTI representatives on EDCs**

14. During 1986 DTI representatives judged their EDCs as falling within one of four categories as follows:

<u>Category</u>	<u>Comment</u>	<u>Number of EDCs</u>
1	Useful, cost effective and should continue	9
2	Moderately useful but room for improvement	8
3	Ineffective, DTI to press for winding-up	9 (of which 5 now wound up)
4	Too early after reconstitution or establishment to judge	.6
		—
	Total	32* (27 excluding wound up EDCs)

Further details are given in Annex I and the attached Tables.

15. The 1986 Survey sought primarily to identify areas for reform within the current system. In April 1987 DTI representatives were asked another series of questions which sought to determine

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\*Includes 5 EDCs in Category 3 which are now defunct, and excludes 1 cross-sectoral EDC (Committee on Finance for Industry) which was largely the responsibility of Treasury.

whether a radically different regime might be preferred. We could not of course predict what the detailed consequences would be of a decision to abandon the present system, but in answering these questions, DTI representatives were asked to assume that Treasury would reduce its funding of NEDO to the level necessary for only such of its services as NEDC alone might continue to require. Thus Secretarial or other services which any successors of the EDCs might require would have to be provided for in some other way, whether by Divisions or by the other parties. But it was also assumed that each Division's staffing levels and budgets would remain unchanged.

16 The main results, gathered from 29 representatives covering 27 EDCs,\* were as follows:

- a No representative expected his Division to seek to set up a similar standing tripartite committee if his EDC were formally abolished, and only 5 expected one or more of the other parties to do so (ie for around one-fifth of the 27 EDCs).
- b But ad hoc tripartite committees were expected to be sought by one of the three parties in 9 of the 27 cases, including 3 of the cases noted in (a).
- c Thus, in all, tripartite arrangements of one sort or another might be sought to replace 11 (around two-fifths) of the 27 EDCs.
- d Bipartite arrangements between various pairs of parties were thought likely to be sought by one or more of the parties in 14 of the 27 cases, including 6 of the cases noted in (c).
- e Thus, in all, alternative arrangements of one sort or another might be sought to replace 19 (around two-thirds) of the 27 EDCs.
- f The results are consistent with the 1986 Survey. Although only 3 representatives expected their Divisions to subscribe financially to any new tripartite arrangements, 13 thought that their EDCs were nevertheless useful. The 13 EDCs comprised 8 of the 9 in Category 1 (see paragraph 14 above), 3 in Category 2, and only 1 each in Categories 3 and 4.

Further details are given in Annex II.

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\*Including 2 EDCs which each have 2 DTI representatives from 2 DTI Divisions ; but excluding the newly formed Committee on Industry and Finance which has replaced the Committee on Finance for Industry, and which has yet to meet. The survey thus covered 27 of the 28 DTI EDCs noted in paragraph 2.

of mrculpin  
PUP

CULPIN  
TO  
CH/EX  
D/6

PERSONAL AND CONFIDENTIAL

FROM: ROBERT CULPIN  
DATE: 15 JUNE 1987

CHANCELLOR

*That's  
I have a  
committee  
as well  
to y - m  
to discuss  
the point.*

NEDC

I will certainly do you a note about Neddy (Mrs Ryding's request today). But I am not sure what it should say about alternative ways for the Government collectively to handle the unions. The present draft says practically nothing. I think it needs to offer a bit more, because the Prime Minister's main concern, when you spoke to her, was that she didn't want to throw out the unions altogether; and I think you told me (privately) that Lord Young had some ideas for dealing with this in his Employment incarnation. Can we have a word (perhaps around one of tomorrow's meetings)?

*yr*

*This was Nick Morck's main worry too. You asked him to consider ways of maintaining a channel for CBI/Chancellor (or Govt) talks. He says we could just continue with present arrangements for the CBI (ie Budget refs, Pay refs, ad hoc meetings when they wanted) - but the real problem was what to do about the TUC - presumably they would want high profile meetings.*

ROBERT CULPIN

CR 1516

FROM: MISS M O'MARA

DATE: 18 JUNE 1987

**CHANCELLOR OF THE EXCHEQUER**

cc Sir P Middleton\*  
 Sir T Burns\*  
 Mr Monck  
 Mr Burgner\*  
 Mr Sedgwick\*  
 Mr Bottrill\*  
 Mr Culpin  
 Mr S J Davies\*  
 Mr Gray  
 Mr C W Kelly\*  
 Mr S Matthews  
 Mr G M White\*  
 Mr Wynn Owen\*  
 Mr Kerley\*  
 Mr Tyrie\*  
 JC/02

\*without attachment

c/see para 6 - content?

OK provided  
 (a) accounts  
 (b) are updated  
 CR 1816  
 Whereva  
 (c) are updated  
 CR 1816  
 This is  
 for  
 Unemployment  
 Char  
 (p 31 x  
 appen 6  
 1986 x  
 1987)

**NEDO: BRITISH INDUSTRIAL PERFORMANCE**

You may recall that NEDO produce a document entitled "British Industrial Performance" every two years. On present plans, a draft of the 1987 version will appear on the agenda for the July Council (if that takes place) as a "below the line" item and, if approved, NEDO hope to publish it shortly thereafter.

2. I attach a copy of the latest draft. We have not specifically been asked to clear it with you before the Council meeting but if you have any major objections to the text, it would clearly be helpful if we were to pass these to NEDO now.
3. The booklet describes British industrial performance since the mid 1970s and makes a large number of international comparisons. The improvement during the 1980s is therefore well documented, although not always highlighted as we should have done if we ourselves had been the authors. Paragraph 4 of Mr Cassels' foreword provides a good guide to the balance of the subsequent text.

4. We saw the previous draft of the document and suggested a large number of amendments. Virtually all of these have been taken. The TUC have also made a (much smaller) number of comments, focussing on unemployment and attributing much of the faster growth in UK productivity to job losses in manufacturing. We have suggested some further changes (marked on the text below) but clearly the TUC's proposed amendments can not be ignored entirely. NEDO have already toned down the language to some extent and we have given them some further ideas.

5. The draft has already acquired some notoriety as a result of the 'Independent' story (attached), published during the election campaign. Despite Mr Eltis' efforts, the draft (paragraph 2 on page 3) still shows average UK growth marginally slower in 1979-86 than in 1973-79. This reflects NEDO's decision to use OECD standardised growth rates in their international comparison. As footnote 4 makes clear, the unstandardised UK data show the reverse. The TUC may seek to make something of this, following the row over the charts they produced for the April Council, but it is likely to prove a damp squib.

6. We doubt whether we can secure further major improvements to the text at official level. Given that any document published under the NEDC's aegis is unlikely to be fully satisfactory to the Government, are you content for NEDO to table a text for the next Council in much the same form as the one attached below?

*MM*

MISS M O'MARA

THE INDEPENDENT

# Report changed to boost Tories' growth record

By Andrew Marr  
Political Correspondent

AN UNPUBLISHED report on British industry has been subject to "politically sensitive" alterations to show that growth has been faster under Mrs Thatcher's two governments than in 1973-79.

The 1987 edition of British Industrial Performance, produced by the National Economic Development Council, was changed on the instructions of Walter Eltis, its economic director.

It will not, as originally drafted, show that growth was slightly higher during 1973-79 — excoriated by Mrs Thatcher as the most shameful period of Britain's recent economic history — than it has been under her premiership.

Instead of an average 1.3 per cent a year growth in 1979-86, compared with 1.5 per cent growth in the earlier period, the report will show growth of 1.43 per cent in the later period, against 1.33 per cent earlier.

In a handwritten note, Mr Eltis says the failure to include the second half of 1986 means a politically sensitive correction should be made: "It is important for obvious reasons that 1979-86 be su-

I have told Mr Buxton that when we take the growth of the UK to end 1986 (for which data is available — Mr Buxton took it only to mid 1986) growth of real GDP is 1.4% pa in 1979-86 against 1.3% in 1973-79. I must insist that he make this change to Table A2 before this leaves NEDO. (I don't want HM Treasury to have to print the politically sensitive correction out to us). It is important for obvious reasons that 1979-86 be superior to 1973-79 and it is — just!

Part of the note calling for the 'politically sensitive' correction.

perior to 1973-79 and it is — just!"

Last night, Mr Eltis said he had "no recollection" of writing the note but declined to say he was not the author. NEDO had been asked not to speak to the Press nor publish anything during the period of the election, he added.

As a result of the changes, the original chart which showed British growth down in 1979-86, like that of all major competitive economies, has been altered to show the UK as the only economy with an improved growth record.

The statistical difference is not large and much of the argument concerns whether British or inter-

national yardsticks and statistical bases are used.

But the changes appear significant because of the way the Government has presented its economic achievements. The "worse" figures in the original draft are the OECD's and the "better" figures are those issued by the Central Statistical Office.

Yesterday, Norman Tebbit, the Conservative chairman, said: "At a time when there are worries about world economic growth, we go [to Venice for the OECD economic summit] as the Government of the country with the fastest economic growth of all."

32/11

18/7/88

**BRITISH  
INDUSTRIAL  
PERFORMANCE**

**4TH EDITION 1987**

**NATIONAL ECONOMIC DEVELOPMENT OFFICE**



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Foreward

by JS Cassels CB

Director General of the National Economic Development Office

This is the fourth edition of British Industrial Performance. The publication provides a profile of the UK economy in its recent evolution in comparison with some of the world's other leading economies. This is achieved by setting out historical and comparative economic trends in a series of statistical charts.

The present edition updates and extends the previous one. It continues the analysis of the output of goods and services, international trade and the labour market as well as the important area of price and "non-price" competitiveness. The previous edition introduced a detailed analysis of the performance of individual industries. This was topical since economic thinking was emphasising the need to consider micro aspects of the economy as well as macro, and also, to put the work of the Economic Development Committees (EDCs) whose job it is to monitor and promote individual sectors of the economy into perspective by providing some comparative indicators of performance. This fourth edition goes further in this disaggregation and so reveals more about the changing structure of the UK and the international economy. The other sections have been extended where recent and improved information has become available.

The broad aim of the publication remains the same; that by providing relevant information from the past to all sides of industry, our understanding of economic problems will be improved, and as a result solutions may be devised to improve future performance. A better economic future can be realised to the extent that those in education, training, management, the trade unions and government can learn from the past.

The story told in the booklet continues to be one of contrast. Many of the performance indicators have improved: GDP has grown strongly for five years, employment has expanded and profitability has risen. But unemployment, though now declining slowly, continues to be a problem, and the deficit in manufacturing trade has been growing. Some pointers to future prospects are however encouraging. Cost competitiveness has improved relative to most countries and the build-up of overseas assets should help to secure a growing surplus in invisible trade. On the negative side, investment in fixed capital, in R&D and in education are still below the levels in the countries with which comparisons are most appropriate.

You should find these pages interesting and stimulating and of considerable use in evaluating the past performance of the British economy. They also indicate some of the possible avenues to a successful future.

## Introduction

The fourth edition of British Industrial Performance aims to portray, in some detail, the economic performance of the UK in the recent past and to make comparisons with that of other leading industrial countries. It builds on the successful previous editions by updating and improving the charts based on the format of the third edition. Like its predecessor, as well as international comparisons, many of the figures draw special attention to recent experience in the UK using the latest information and showing more detail than is possible in the comparative charts. The main addition to this edition appears in section B, the industry analysis, where coverage has been extended by providing more detail of the components of manufacturing industry.

The booklet starts with a short section on overall economic performance, the macroeconomic indicators including standard of living; then provides an analysis of industries, the microeconomic performance; examines aspects of competitiveness and its determinants; gives a breakdown of international trade; and ends with a description of the labour market.

A separate pamphlet giving a precis of the actual number which make up the charts, except for section B, is included in this edition.

## Section A

### Overall Performance

The overall level of economic activity is measured by the flow of goods and services through an economy over a given period of time. Three ways of measuring this are in terms of output; the incomes which the production generates; and the expenditure which takes place in the purchase of the goods and services produced. Aspects of all three appear throughout this booklet. Figure A1 provides estimates of annual Gross Domestic Product (GDP), the total value added in the production of goods and services, graphed over a 20 year period for the UK and its major competitors, as an indicator of average living standards. The comparisons are made reasonably accurate over time and between countries by taking account of price, currency value in terms of purchasing power,<sup>1</sup> and population changes, giving real GDP per person. The UK level has risen steadily over the period, although other countries have generally done better except in later years. Recent UK performance is in the inset chart showing GDP per head in constant prices.<sup>2</sup> It depicts the decline in the early 1980s and the recovery since then.

Looking at levels of total real GDP gives a measure of the economic size of countries. Figure A2 shows how these levels have changed over the last twenty years.<sup>3</sup> The periods which are chosen compare economic cycles in the UK, although the current UK cycle is not yet complete, and the cycles in other countries may not coincide fully with UK timing and may thus somewhat distort the international comparisons. Nevertheless, in all the countries, growth slowed through the second period. The UK shows the slowest growth for the first two periods, while in the third it was only marginally less than the second.<sup>4</sup> The inset shows that the last four years' growth has been relatively rapid and sustained following the fall in GDP in 1980 and 1981 and the small rise in 1982.

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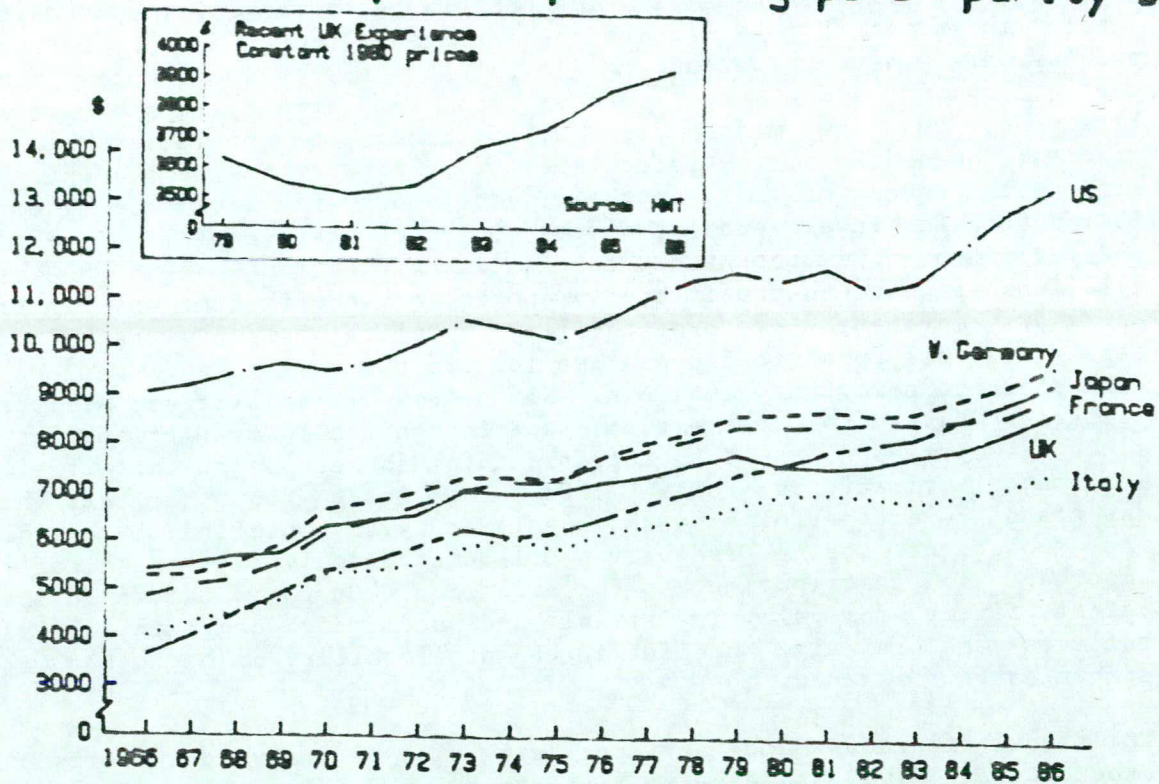
<sup>1</sup>Purchasing power parity exchange rates are used to make comparisons of standards of living between countries more accurately than is possible by simply using market exchange rates as these involve pricing matching products in the different countries and, by using information on expenditure patterns for weights, they revalue GDP at a common price level. CSO (87)14, February 1987 has more details.

<sup>2</sup>Note that the data used for international comparisons for all the figures has been standardised as closely as possible to international definitions and, as a result, where UK national sources are used in the insets, the figures may not be identical to those in the main charts.

<sup>3</sup>Growth rates are estimated by log-linear regression and thus take account, to some extent, of the whole period covered rather than simply the two end years.

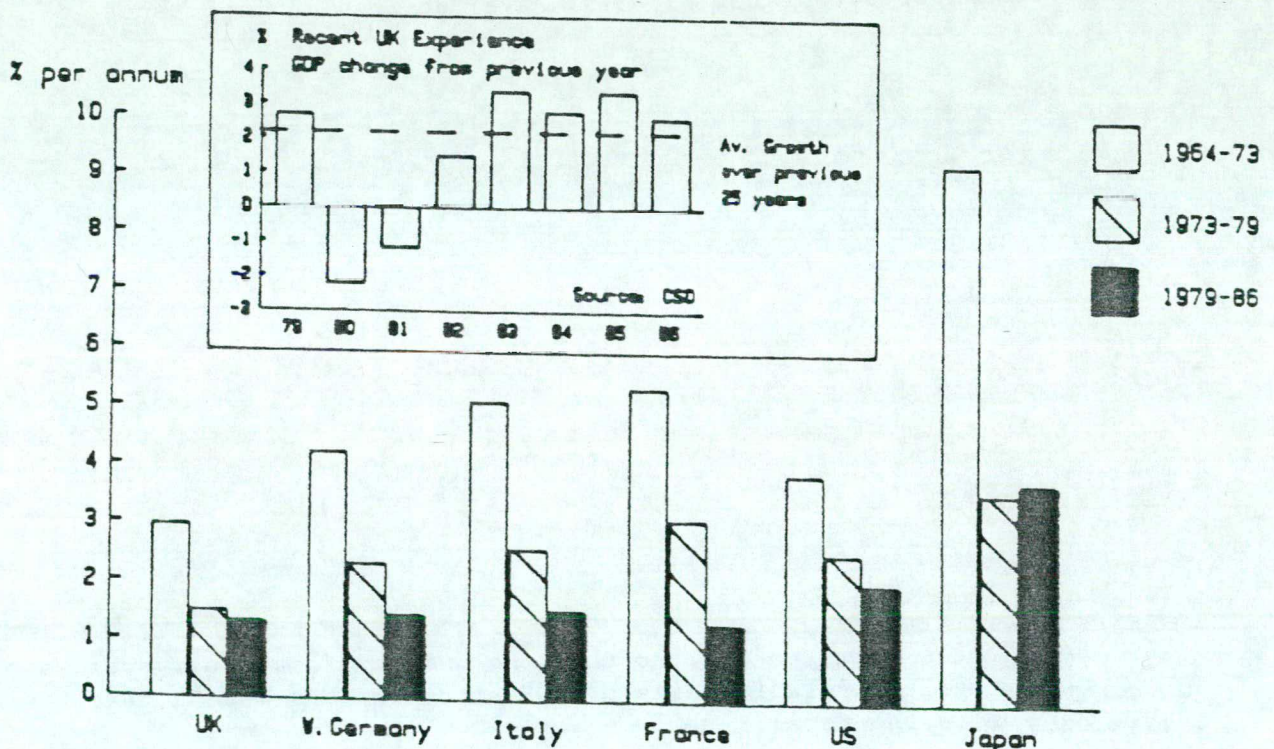
<sup>4</sup>The unstandardised UK data actually shows growth in the third period as higher than in the second.

FIGURE A1 Standard of Living: Real GDP per head  
Constant 1980 \$ prices (purchasing power parity basis)



Sources: OECD, CSO

FIGURE A2 Growth: Average annual increase in real GDP  
Constant 1980 prices



Source: OECD

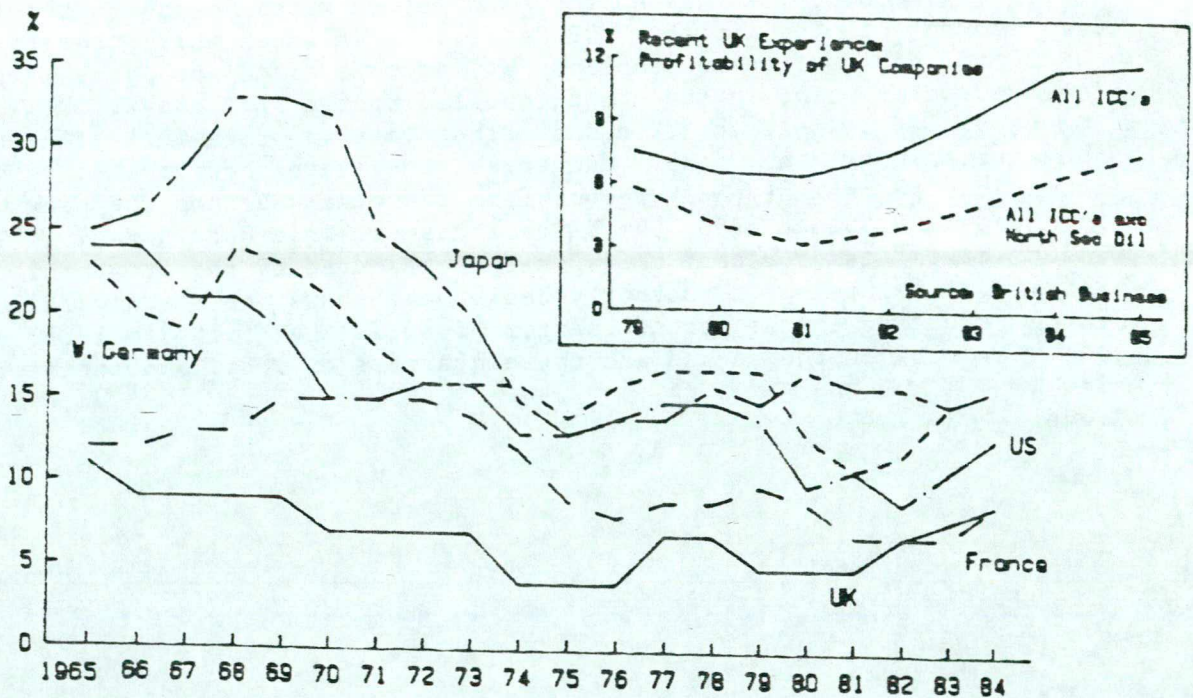
Analysis of the industries which contribute to the GDP is given in detail in section B. The incomes that are generated in the productive process are largely wages and salaries, profits and incomes from self-employment and rents. Incomes from employment are shown in a later section. The major part of the remainder, profit, can be an important measure of the relative economic performance of a country, since it depends in part on the effectiveness with which its system has allocated investment resources in the past and may give an indication of the potential for future investment although the relationship between profitability and performance is complex. Figure A3 shows movements of profitability, profits relative to fixed capital, across countries, over time for all non-financial corporations including North Sea Oil activities. All the countries have, to some extent, experienced declining profitability since the mid-1960s, and the UK profit rate has been below that of all its major competitors, until 1982. The inset graph reflects the aspects of recent performance shown earlier, with a decline up to 1981 and subsequent strong recovery. Oil-related activities are clearly important in contributing to the expansion, but the slowdown in the latest figure for all industrial and commercial companies (ICCs) reflects the relative decline in the profitability of North Sea Oil companies.

The flow of goods and services can also be analysed in terms of expenditure. Five broad categories are shown in Figure A4 indicating the allocations to each, across countries, and across a ten year period. While the proportions change only slowly for each country, the chart shows some important differences between the European countries, the US and Japan. The European countries have broadly similar allocations to gross fixed capital formation and Government expenditure whereas the Government takes a larger share in the US and gross fixed capital formation takes the larger share in Japan. There has been a general rise in the share of trade in all countries except Japan where imports (but not exports) have declined in importance.

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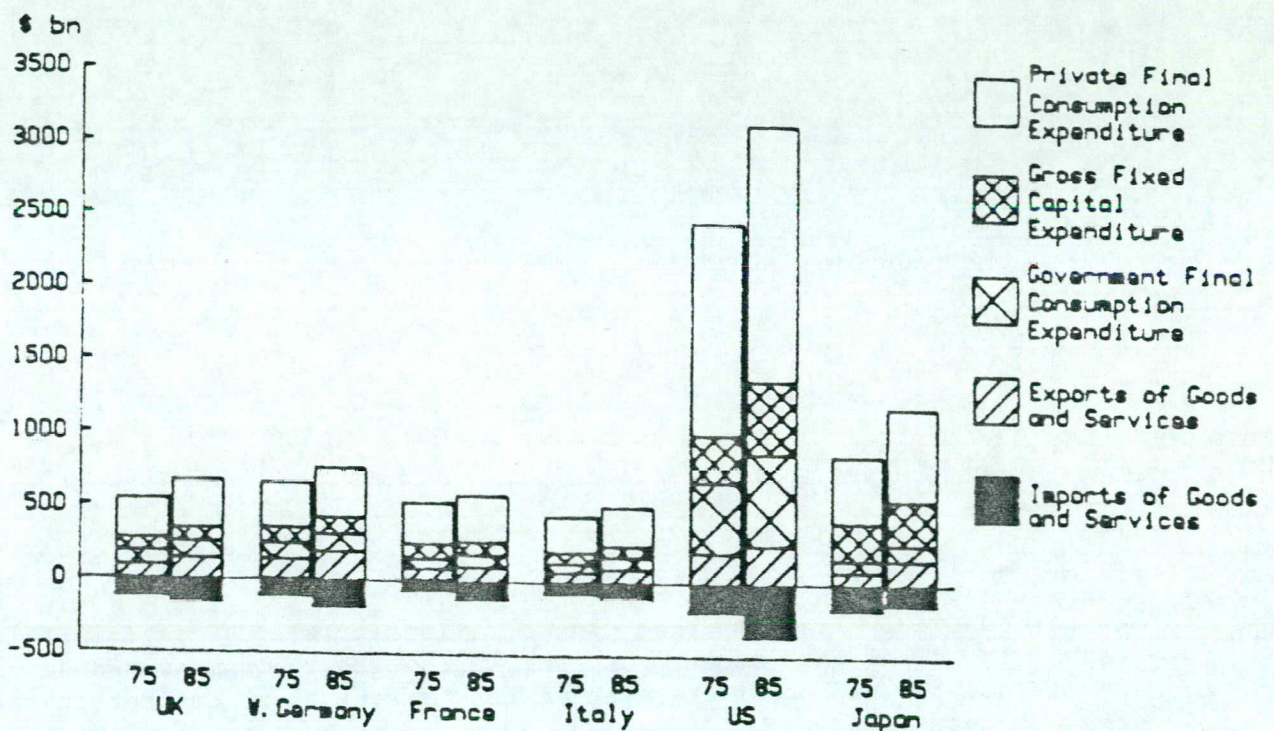
<sup>5</sup>The categories sum to GDP, so that the height of each bar does not necessarily reflect relative size of GDP since imports make a negative contribution to the total.

**FIGURE A3 Profitability: Net rates of return to fixed capital. Non financial corporations (pre-tax)**



Source: DTI

**FIGURE A4 GDP by Type of Expenditure: Constant 1980 \$ prices (purchasing power parity basis)**



Source: OECD

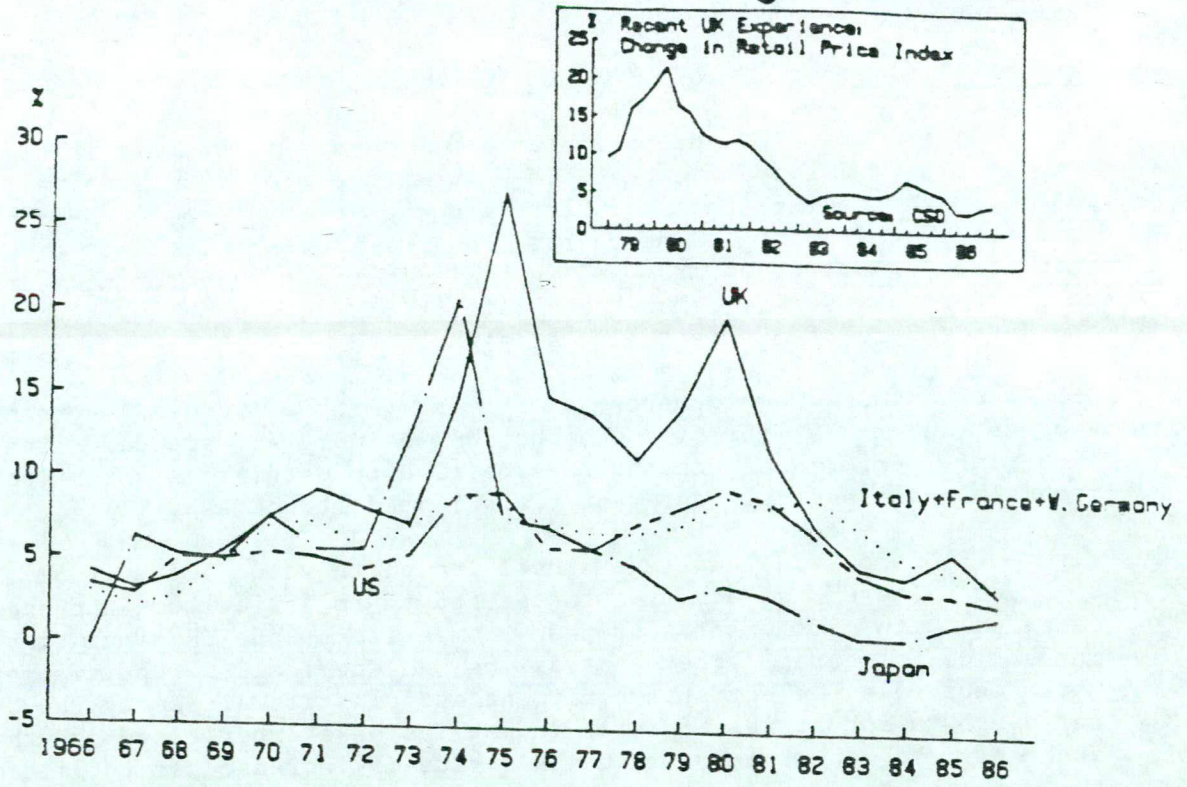
So far, comparisons of the level of activity have been expressed in real terms. The picture in current prices is rather different as a result of inflation. Figure A5 shows inflation rates, measured here as the growth of the implicit GDP deflator, the index which transforms GDP from current into constant prices, and the different paths it has followed over time in the countries illustrated. While over the last 20 years as a whole the UK had a higher rate of price inflation than the average of the other countries, the graph shows that this was mainly due to the large divergence from the others around the peaks of 1975 and 1980. Since 1980, the UK rate has declined considerably. The inset graph is of recent UK experience measured by the growth of the retail price index on a quarterly basis<sup>6</sup> and shows the sharply falling trend starting in the second quarter of 1982; the hiccup in 1985; the 19 year low in the second and third quarters of 1986; and the recent low level.

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<sup>6</sup>Where quarterly rather than annual figures are used, as in this graph, to highlight recent UK experience, growth is measured at an annual rate for each quarter relative to the equivalent quarter in the previous year.



FIGURE A5 Inflation: Growth of annual GDP price deflator. Annual average increase



Sources: DECD, Dept. of Employment

## Section B

### Sectoral Analysis

This section examines the performance of industrial sectors in the UK and its major European competitors between the mid-1970s and the mid-1980s by comparing the structure and characteristics of their main industry groups. Most of the charts show the whole of industry divided into ten broad groupings and in addition the manufacturing sectors further subdivided to demonstrate differences between them as well as the performance of manufacturing as a whole.

NEDO's Economic Development Committees (Little Neddies) currently embrace about 35 sectors of the UK economy and are dedicated to improving performance in their respective industries. A selection of recently published relevant reports is listed at the end.

Figure B1 shows real average annual growth in value added, from 1975 to 1985.<sup>8</sup> The UK has achieved faster growth in agriculture and energy compared with its main European competitors, but UK manufacturing industries have been trailing. Chemicals, particularly pharmaceuticals, electronic equipment and plastics are among the UK's rapid growth industries. Service industries have experienced growth in each of the countries but the UK's rate of increase has not matched that of the others.

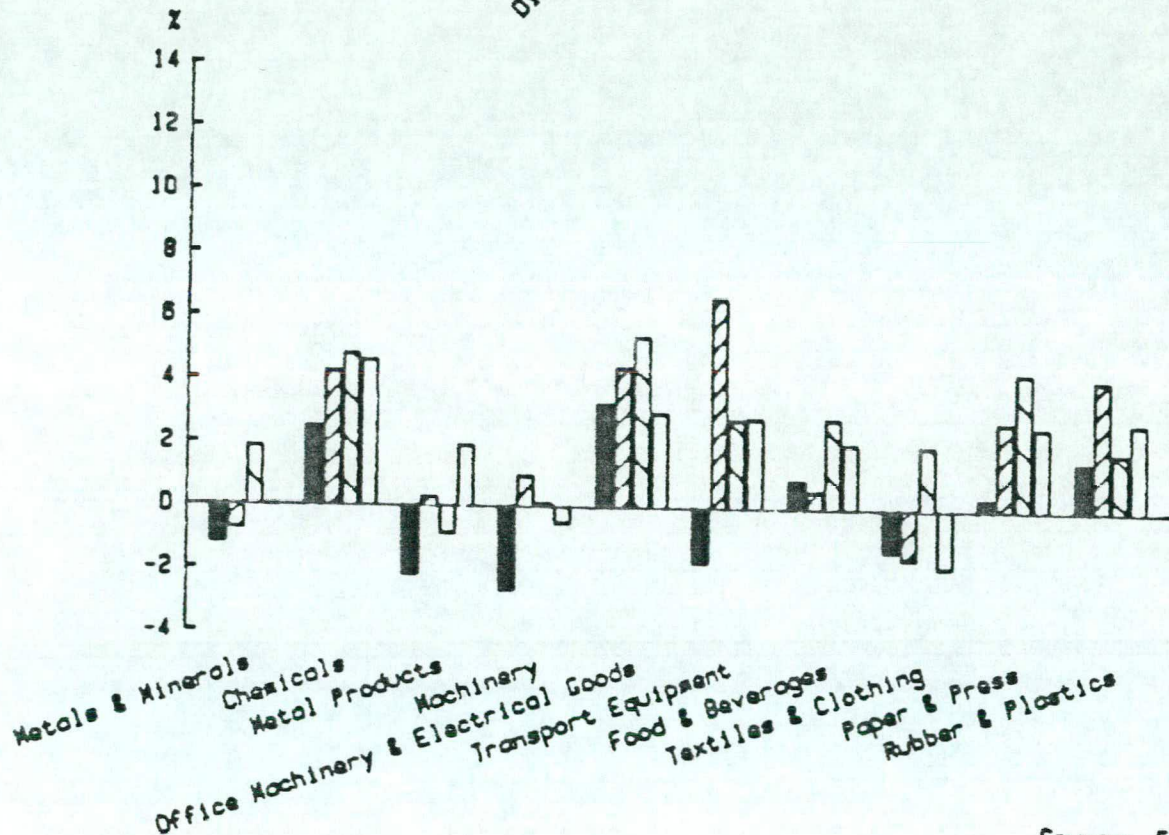
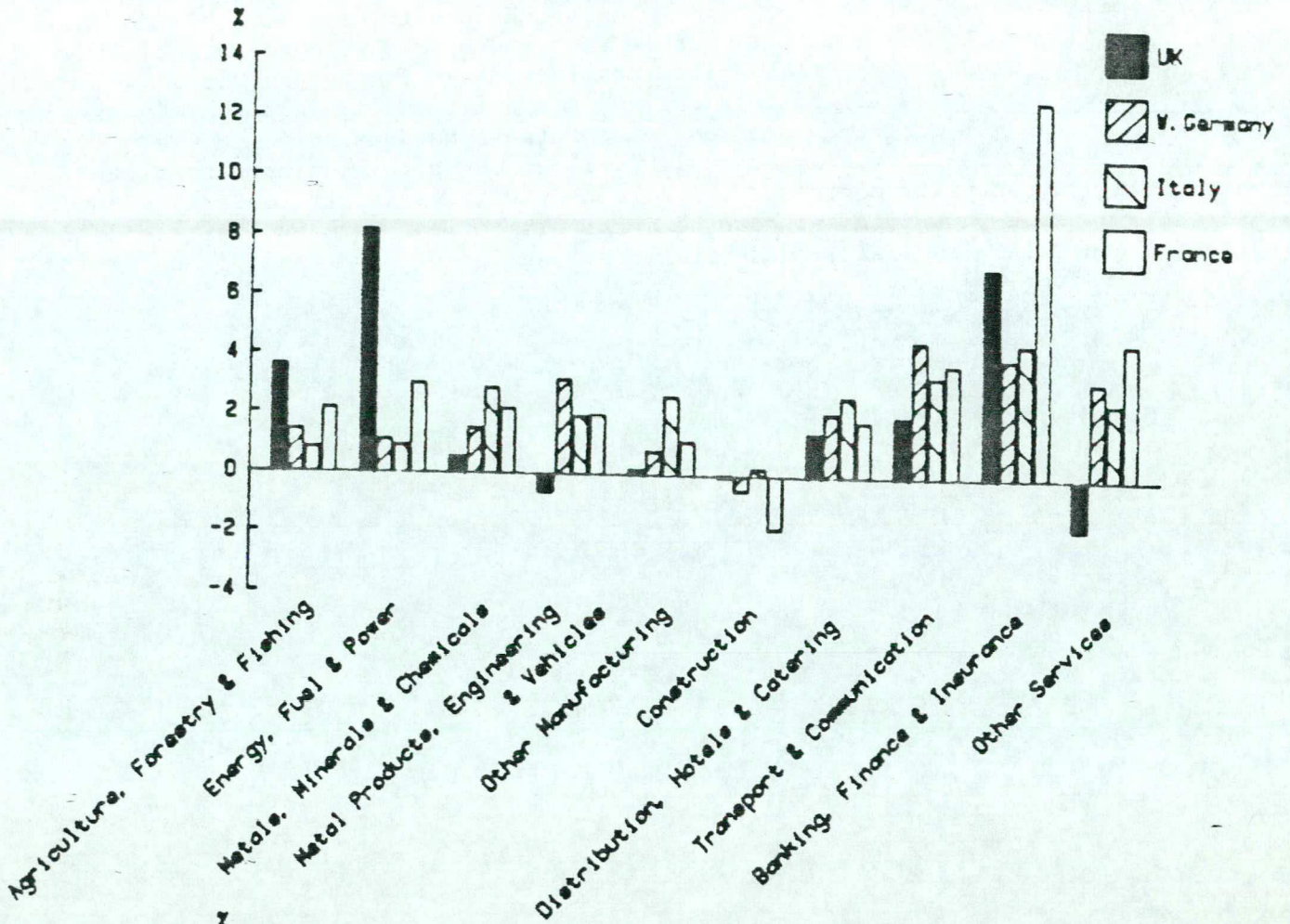
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<sup>7</sup>The manufacturing sectors do not sum to total manufacturing because the small remainder is not charted.

<sup>8</sup>This time period is chosen because it is the most recently available decade. It means that while the longer term trend is shown, the events in between are not, and in this case, the significant changes in the late 1970s and early 1980s are omitted.

<sup>9</sup>In the UK, expenditure on financial services is not deducted from the output of individual sectors in deriving value added. Instead, a global adjustment is made. The rapid growth of this negative "adjustment for financial services" between 1975 and 1985 may be part of the reason for the fall in output in other services in B1, and may affect the comparisons in B2 and B5.

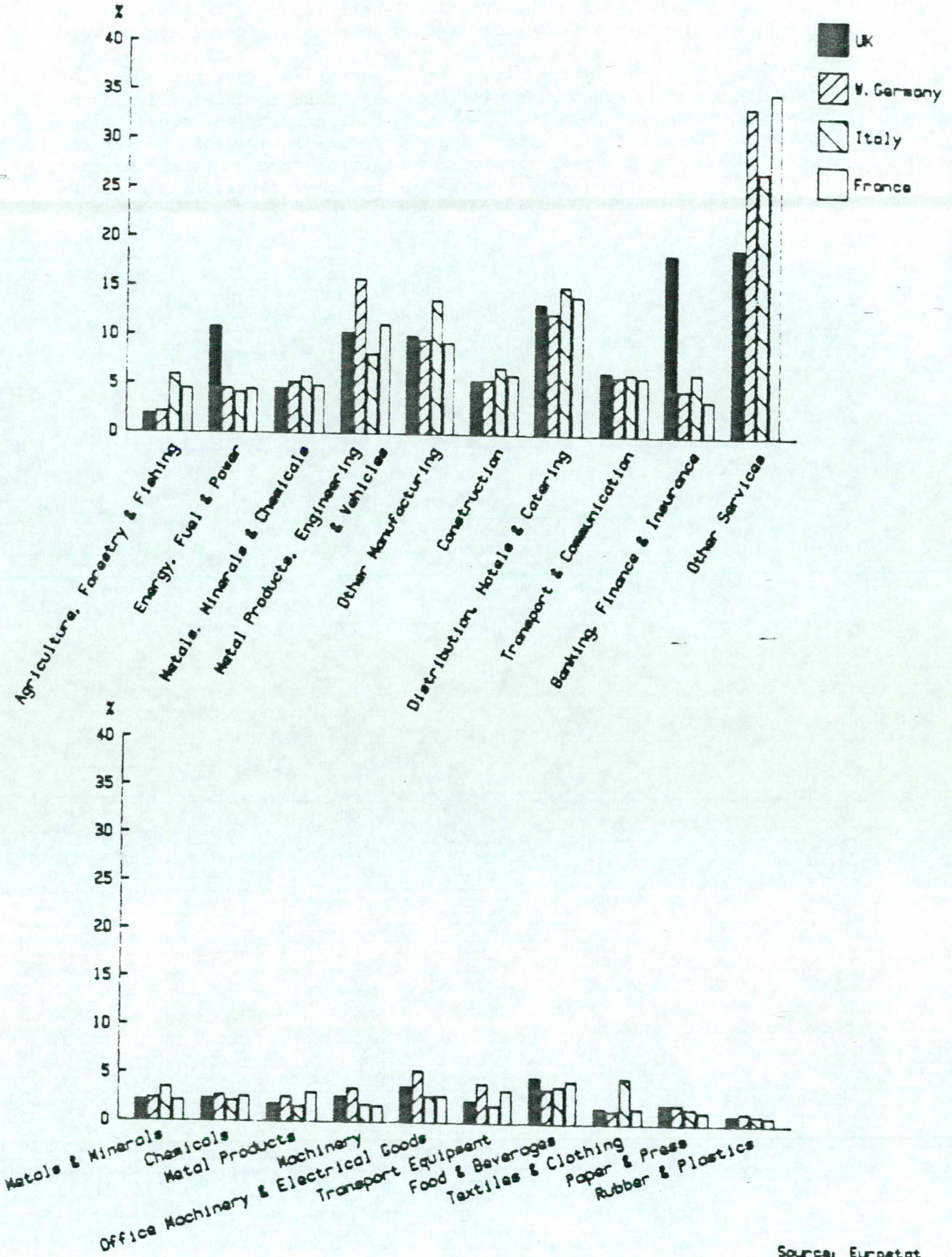
FIGURE B1 Value Added (at market prices) by Sector  
Annual average growth rate 1975-85, constant  
1980 prices



The contributions to GDP by each sector are set out in Figure B2 and show the differences in each country's industrial structures. The greater size of the UK's energy and financial services sectors and the relative importance of food and drink industries contrast with the small size of its agriculture sector compared with the other three countries. The significantly smaller share of other services, which are mainly public administration, and other public sector activities in the UK reflects to some extent the conscious policy of reducing expenditure in this area as well as the global adjustment already mentioned. The dominance of certain industries is particularly marked in some countries including machinery in West Germany, textiles and minerals in Italy, and transport equipment and metal products in France.

(see footnote 9)

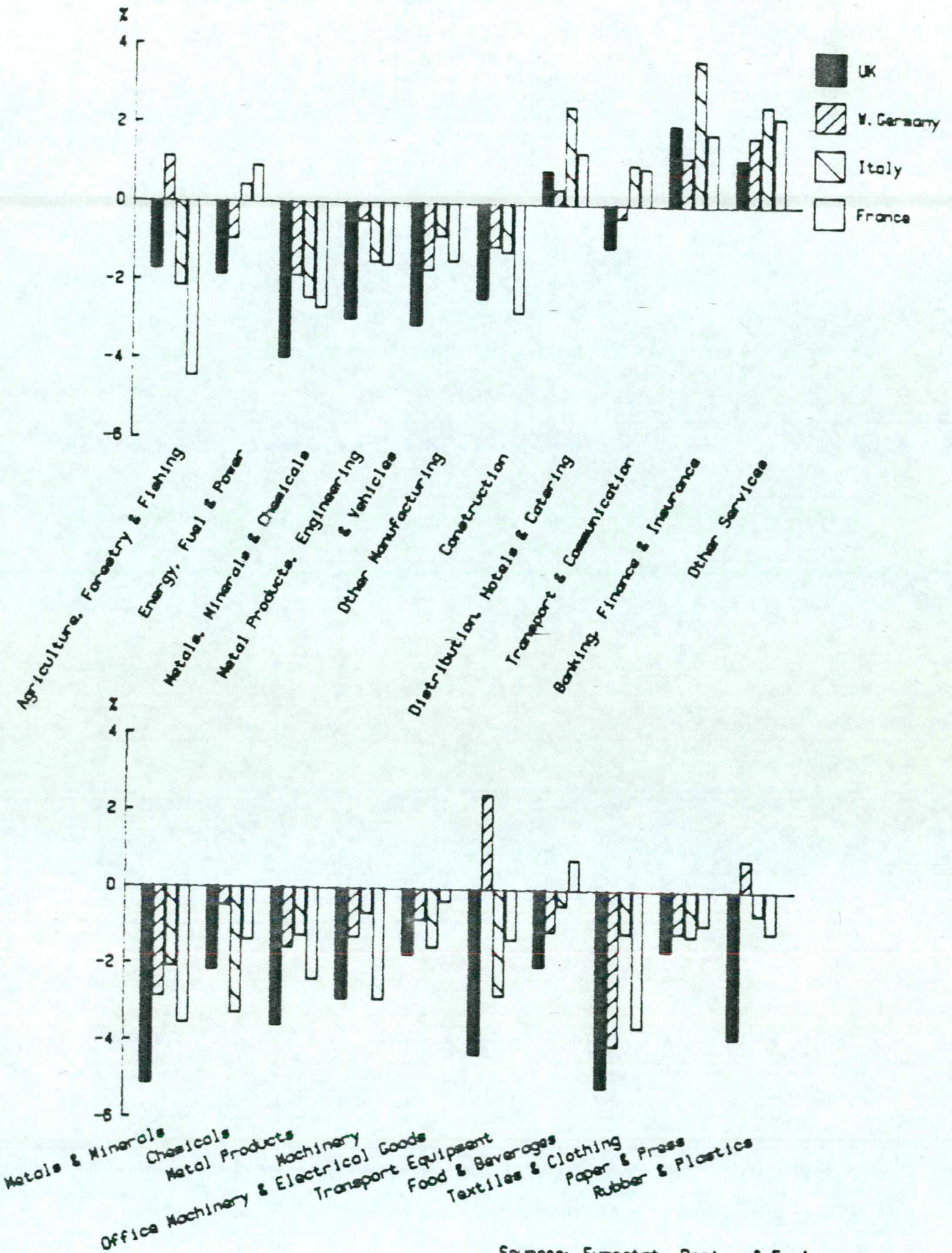
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**FIGURE B2 Value Added (at market prices) by Sector - Share in total value added in 1985**



Source: Eurostat

Figure B3 shows employment growth rates by sector. ~~Compared with~~ <sup>Although here - have been</sup> increases in total employment since 1983, the almost universal decline in employment in manufacturing, agriculture and construction is well documented and can be clearly discerned. There has been considerable growth in services which has partly compensated for this. Rates of reduction in UK employment have exceeded those in the corresponding industries of all countries in all manufacturing and construction industries but not in agriculture. Increases in most of the service sectors have been lower in the UK, starting from a higher share of employment in these sectors, than in the other countries. There has also been some growth in self-employment.

FIGURE B3 Employment by Sector  
Annual average growth rate 1975-1985

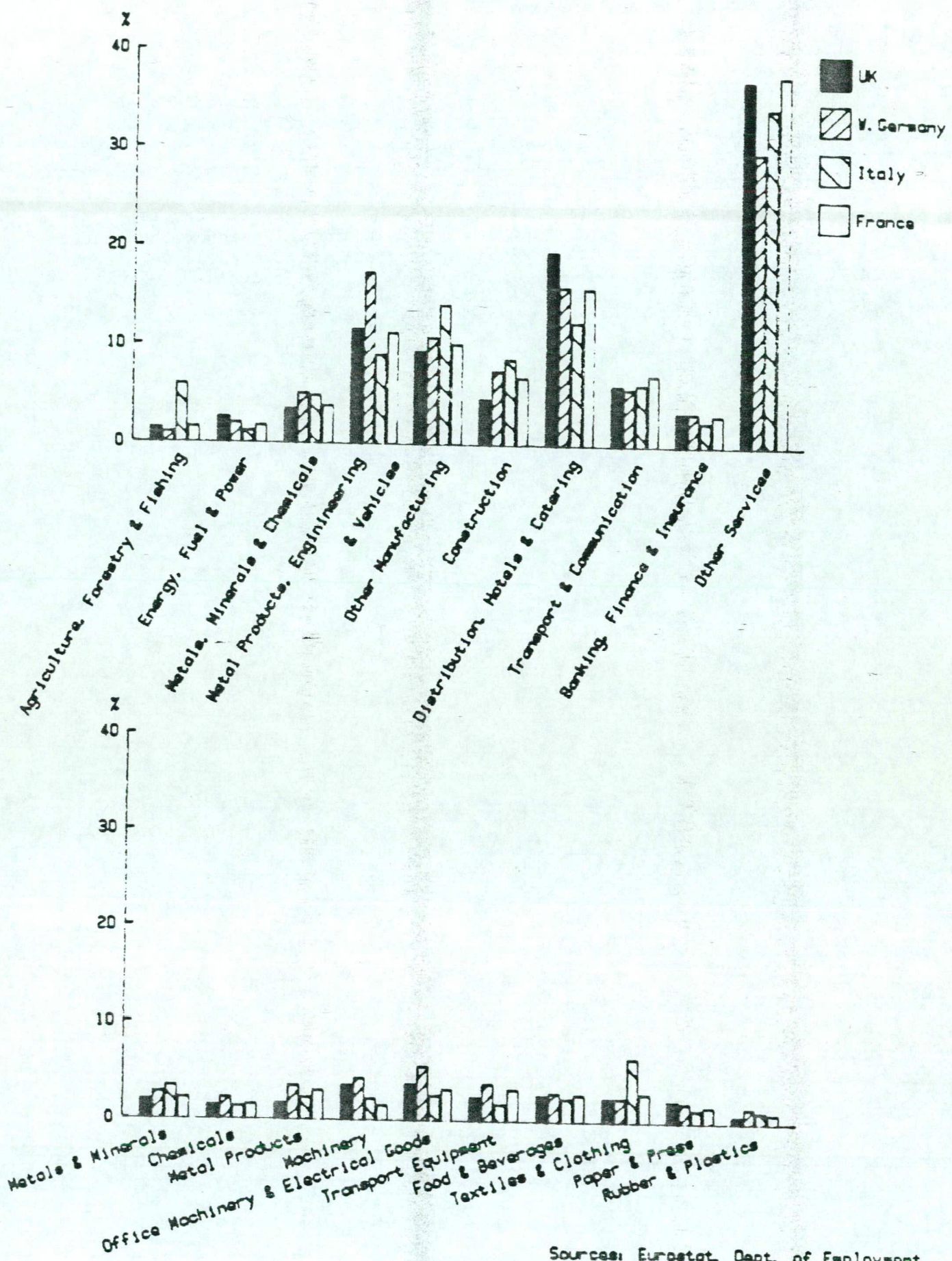


Sources: Eurostat, Dept. of Employment

The shares of employment in each sector are shown in Figure B4. The proportion of employment in distribution and hotels and catering in the UK is higher than in the comparable industries elsewhere, whilst only France has a slightly higher share in other services than the UK. In the manufacturing industries, machinery, office machinery and electrical machinery have a relatively high share in the UK.



FIGURE B4 Employment by Sector: Share in total, 1985

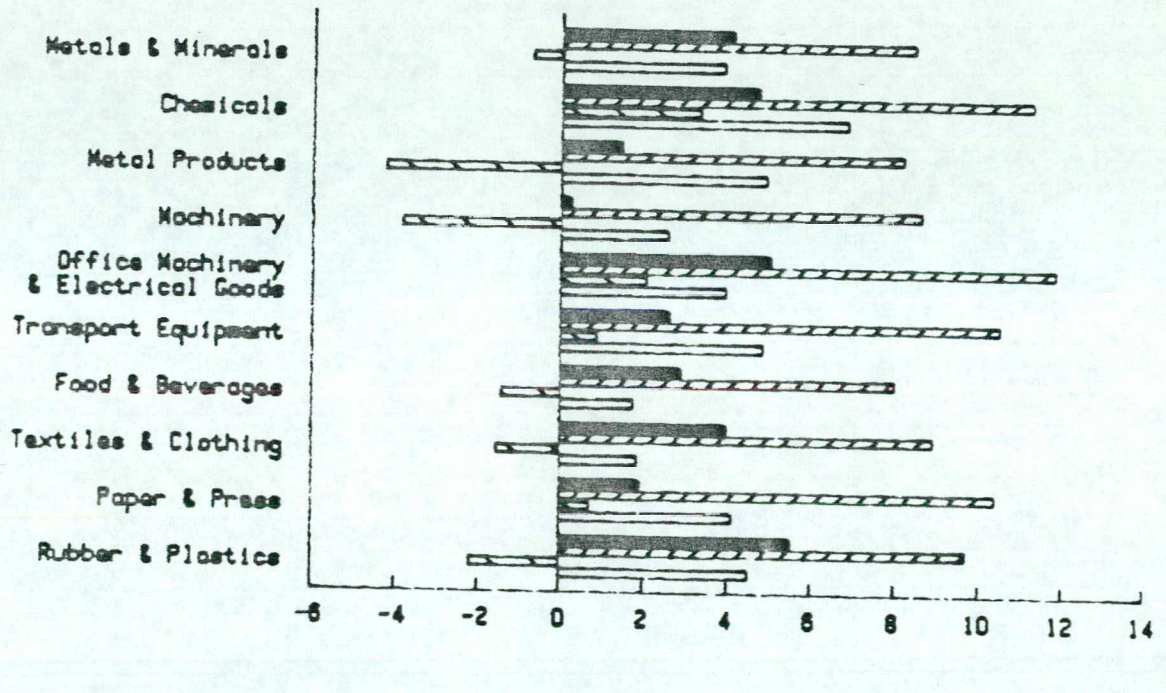
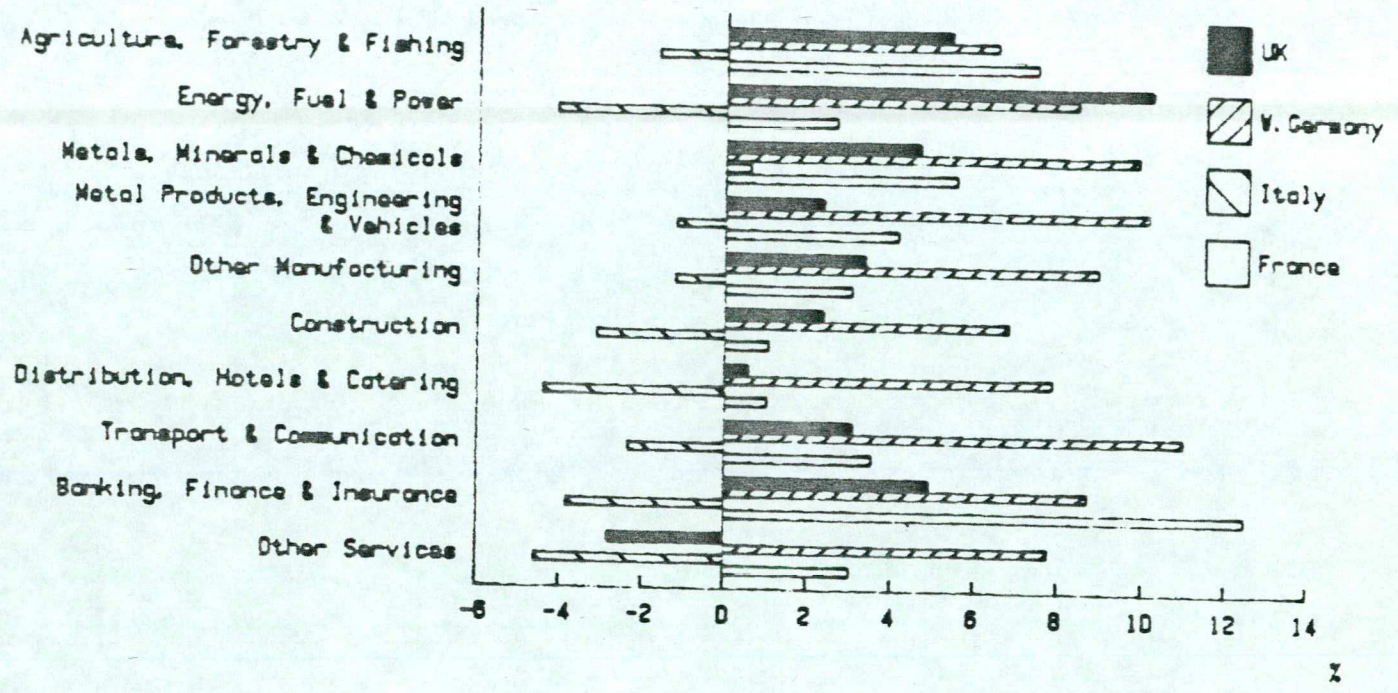


Sources: Eurostat, Dept. of Employment

Whereas Figure C2 compares trends in labour productivity in manufacturing as a whole over the last decade, Figure B5 sets out the growth of value added per employee for the individual sectors. Differing but unspecifiable levels of part-time working and self-employment in each country's industries will affect the comparisons, as will the 1985 exchange rates and the adjustment for financial services. However the chart suggests that the UK's level of productivity in 1985 was better than in the other three countries in insurance and construction and energy as well as in textiles and clothing, rubber and plastics, and metals and minerals. On the other hand, changes in productivity come about through differences in the growths of output and employment, and in the UK, ~~much~~ of the recent improvement in productivity has come about through relatively rapid falls in employment.

*Some*

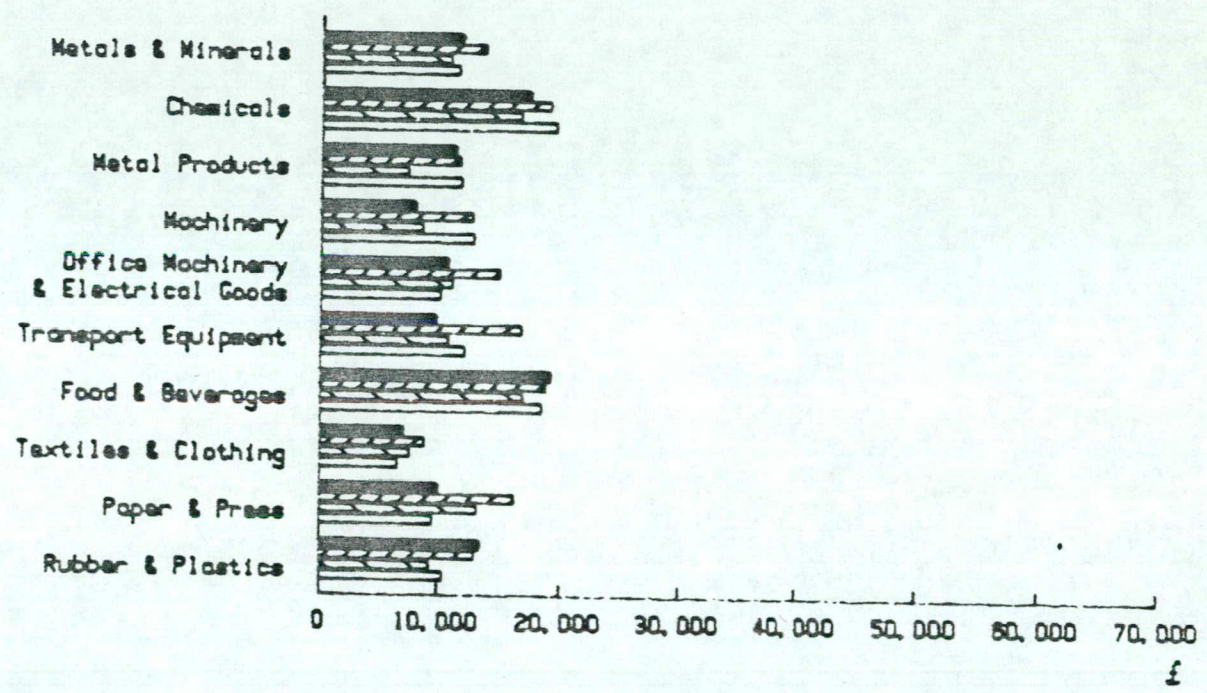
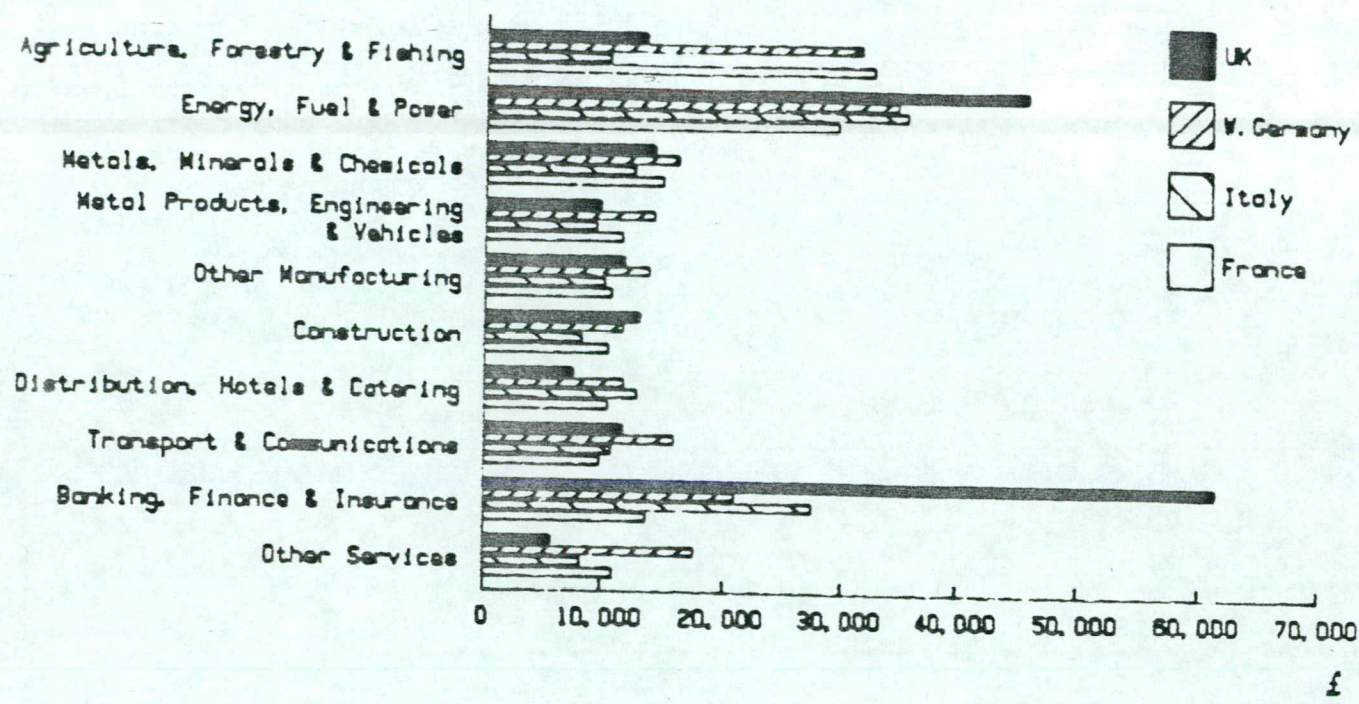
FIGURE B5 Productivity by Sector  
(Value added per employee at market prices)  
Average growth rate 1975-85, constant 1980 prices



Source: Eurostat, Dept. of Employment

Levels of value added per employee for each sector are set out in Figure B6. Energy and finance are the leading sectors in the UK but in these, performance lags behind the other countries.

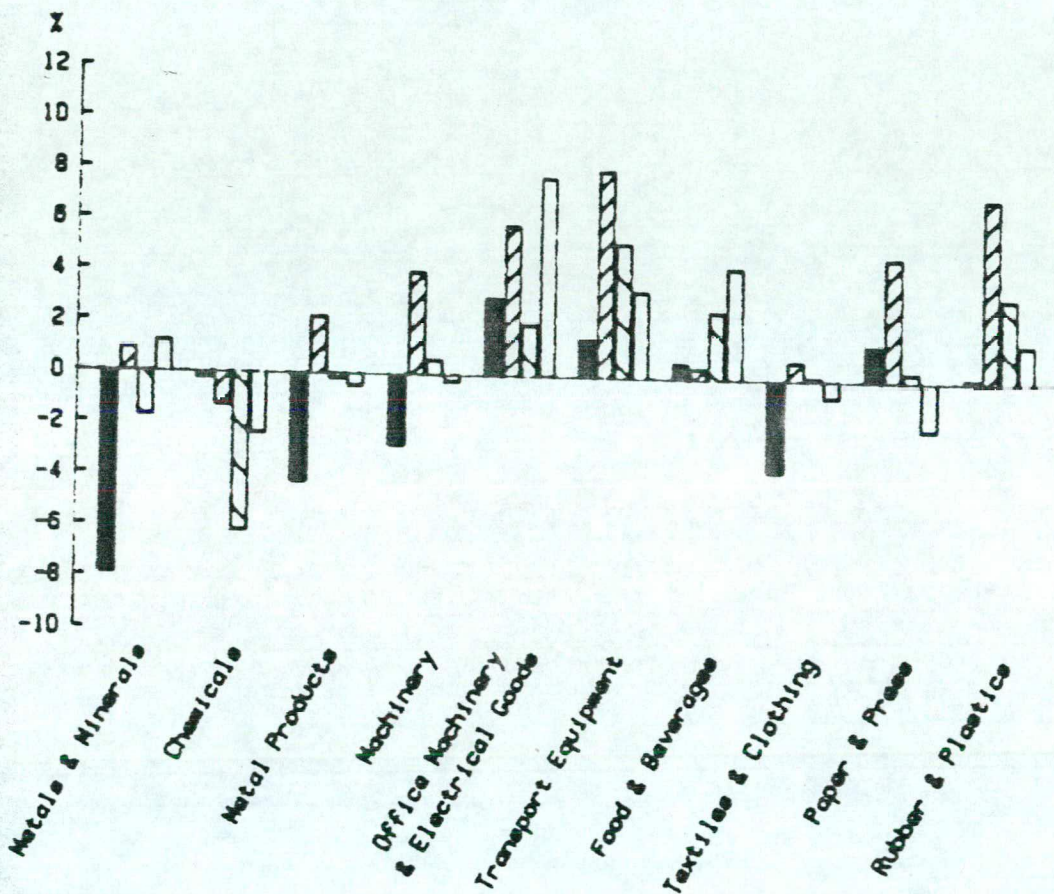
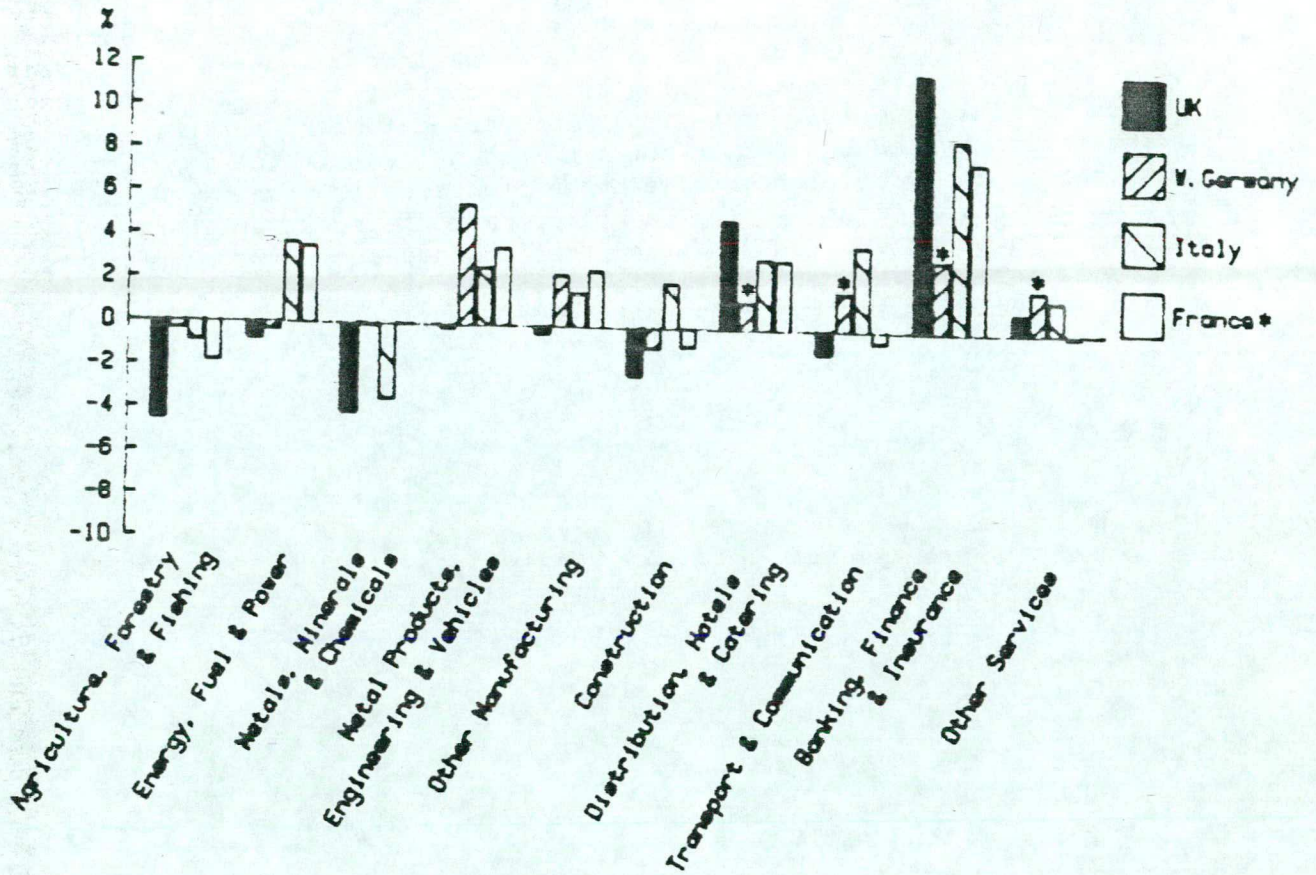
FIGURE B6 Productivity by Sector  
(Value added per employee at market prices)  
Value added per head, 1985



Source: Eurostat, Dept. of Employment

The economic development of industries is very dependent on the quantity and quality of investment. Figure B7 compares growth in gross fixed capital formation in the four countries over the decade to 1985. Several sectors registered falls in investment. In the UK these were metals, metal products, agriculture and textiles, and clothing. The UK industries showing the fastest growth have been finance and distribution, and hotels and catering, but the former is very much influenced by the growth in leasing of equipment by the finance sector. This practice has not developed as rapidly in the other countries and is reflected in the value of investment per employee (see B8). If leased assets were attributed to user industries, they would show faster investment growth and higher investment per employee and the finance sector performance would be correspondingly slower and lower.

FIGURE B7 Investment by Sector: Annual average growth rate 1975-1985, constant 1980 prices

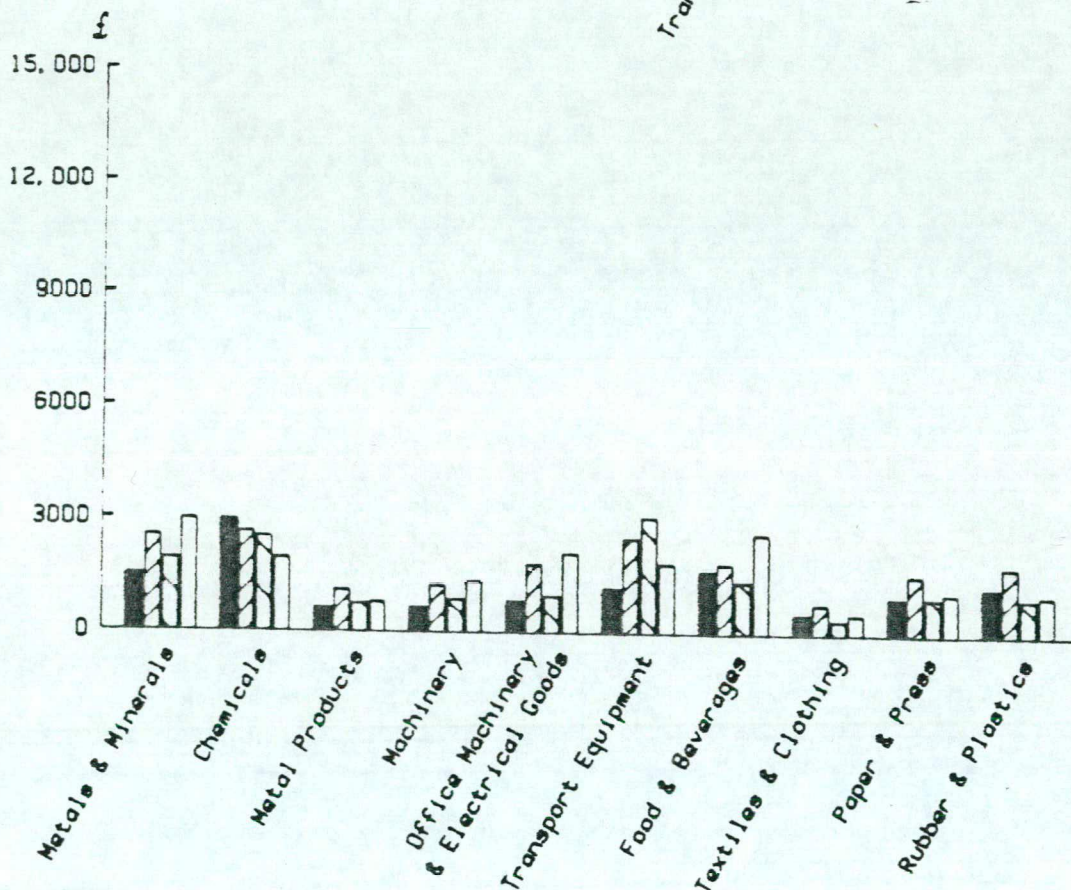
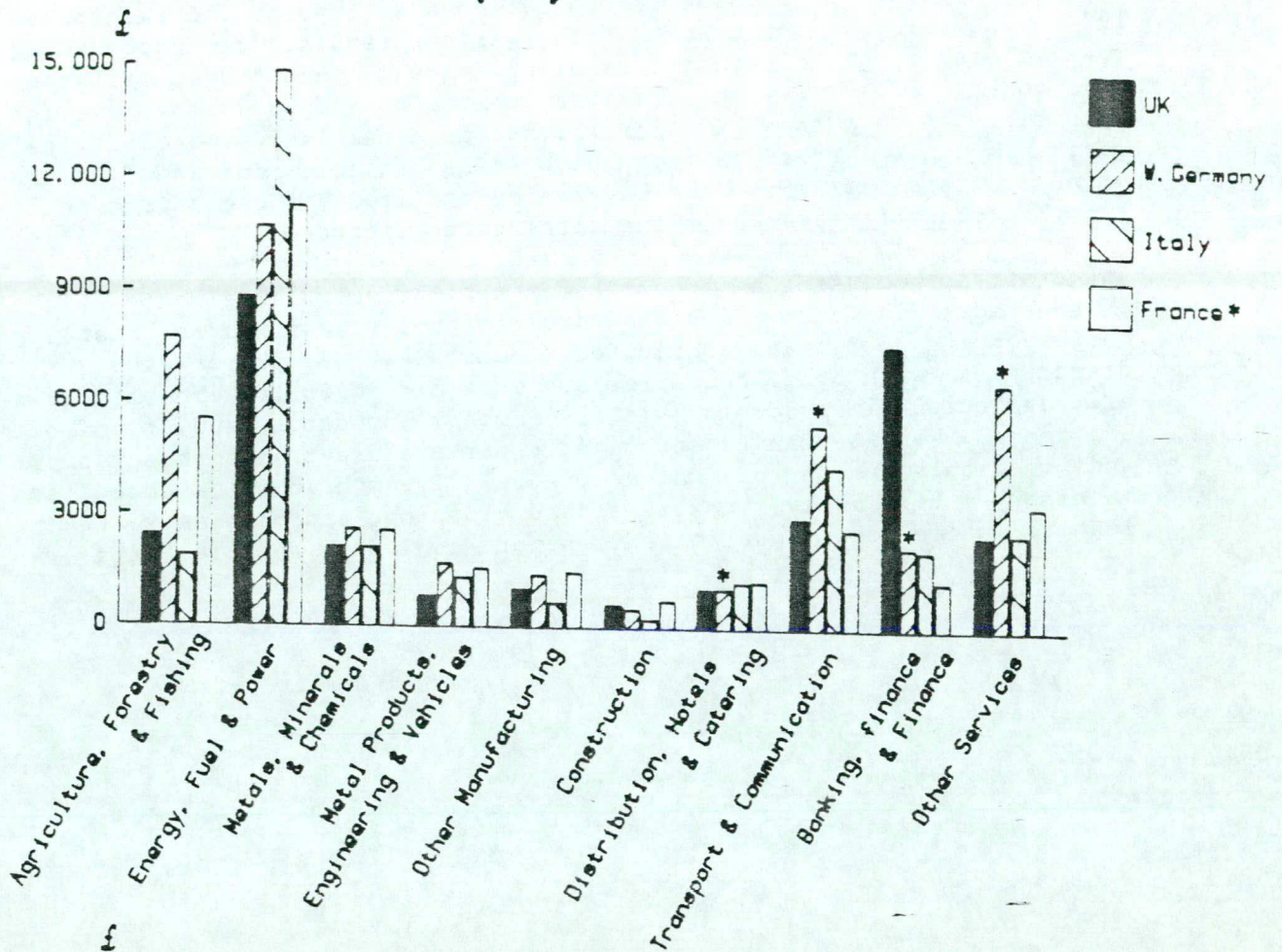


\* 1975-84

In general, the higher is the level of investment per head, the faster potential output per head can grow. The flow of investment per employee, taking appropriate exchange rates into account, is shown in Figure B8. Care must be taken in the comparison because a single year may not be representative. However, the chart suggests that insurance and banking is the only broad sector to have a higher rate of investment in the UK than in the other countries. In the manufacturing sectors, the difference between the countries is less marked and the UK chemicals industry has a higher rate of investment per employee than its counterparts in the other countries. ~~In the manufacturing industries, investment is generally lower than in the other countries, although chemicals is higher than the rest.~~ ]



FIGURE B8 Investment by Sector: Investment per employee 1985



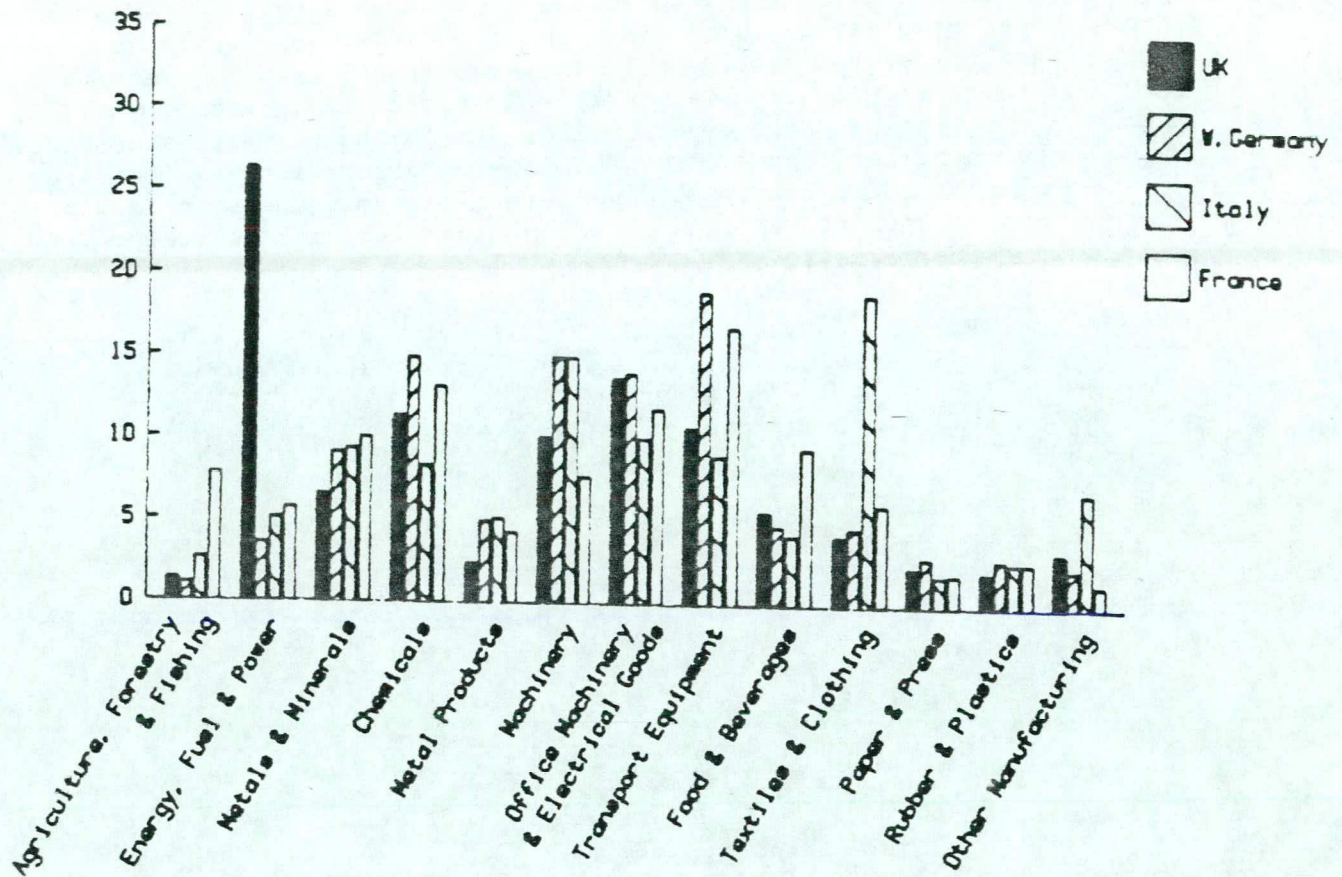
\* 1984

Figure B9 gives an indication of the sectoral composition of overseas trade in goods by showing the share in total imports and exports in 1984. The relative importance of the various manufactured goods which make up each country's trade is similar for some industries, different for others. Fuel is the leading commodity imported by all the countries except the UK, for which office machinery and electrical goods is the largest category with transport equipment and food and drink runners up. For the UK, France and Italy, these four product groups account for over half the total goods imported.

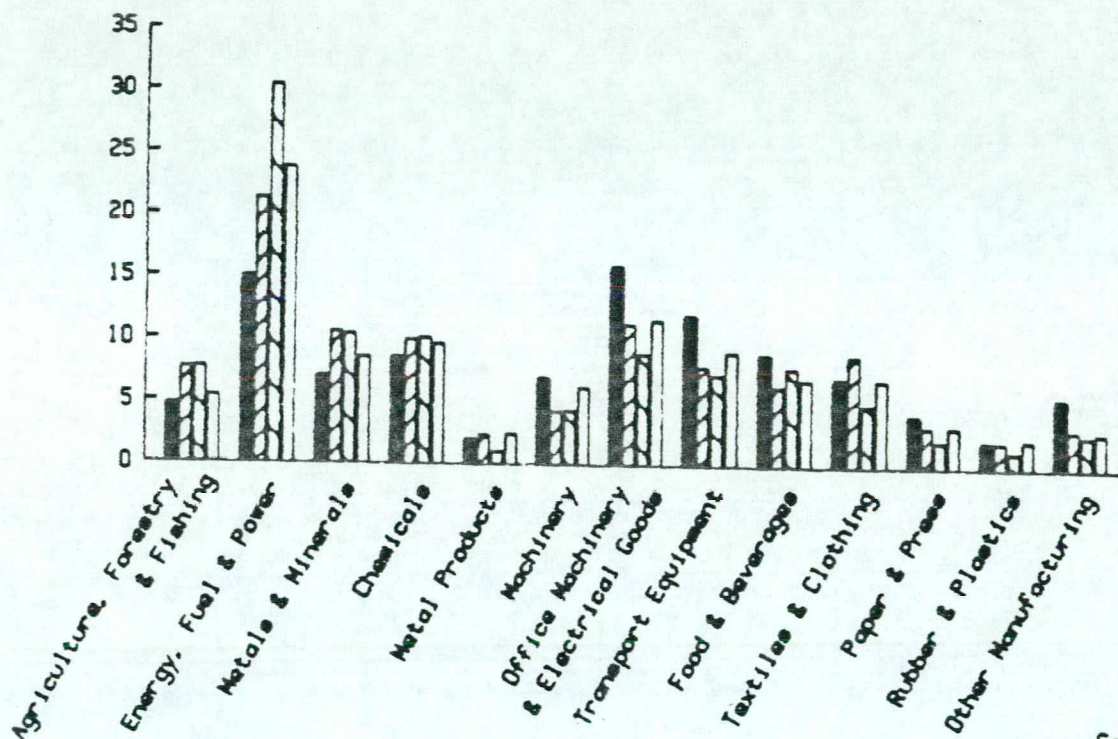
For exports, because fuel accounts for a relatively large share of the UK's trade, in all other sectors it has lower shares than its corresponding European competitor industries. Even so, the UK's disparities with other countries are more marked in its export shares of agricultural products, metals, metal products and transport equipment. West Germany's strongest exporters are transport equipment and chemicals, both of which are relatively high value added, and machinery. For Italy, textiles and clothing, and machinery are the leaders, while for France it is transport equipment and chemicals.

FIGURE B9 Sectoral Composition of Overseas Trade

% Share in total exports, 1984



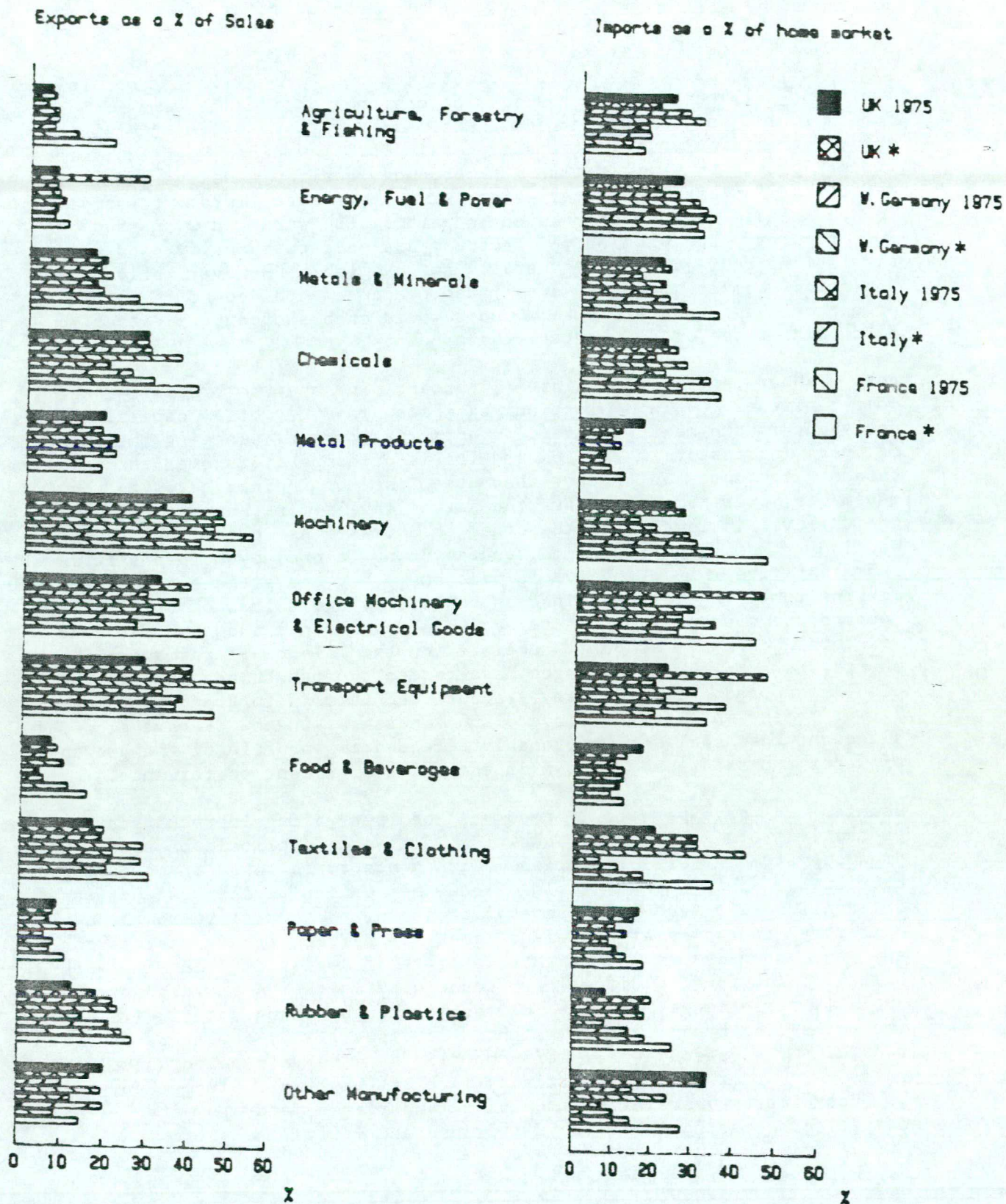
% Share in total imports, 1984



Source: Eurostat  
France data is for 1985

Figure B10 shows for each product group the extent of import penetration and export share of output. In the majority, both have increased in all countries between the two years illustrated. However there have been small decreases in the UK's import ratio for agriculture, energy, metal products, machinery, paper, and other manufactures. France and West Germany have made the greatest strides both in increasing their export ratios and in their import shares of the domestic market. Goods for which import penetration has increased most in all the other countries have been office machinery, electrical goods, and transport equipment, with textiles and clothing and chemicals rather less so.

FIGURE B10 Trade Performance by Sector Between 1975 and 1985



Source: Eurostat

\* UK and W. Germany, Agriculture, Energy 1984, Other Sectors 1983, Italy 1984, France 1985

## Section C

### Competitiveness and Labour Productivity in Manufacturing

Much UK output is sold directly or indirectly in competitive international markets. While competition in price is of central importance, competition in quality, of design and process, competition in selling, and matching design to markets are also crucial in competing effectively. Strong impressionistic evidence suggests that UK non-price competitiveness in product quality, delivery dates, design, reliability and after-sales service has been improving rapidly in the last decade, stimulated in part by EDC work and witnessed by EDC reports. But non-price factors are hard to quantify, and good statistical indicators are generally not available. However, price and non-price competitiveness are linked, because both depend on cost of production and therefore low cost would enable producers either to hold down prices or to up-grade the product.

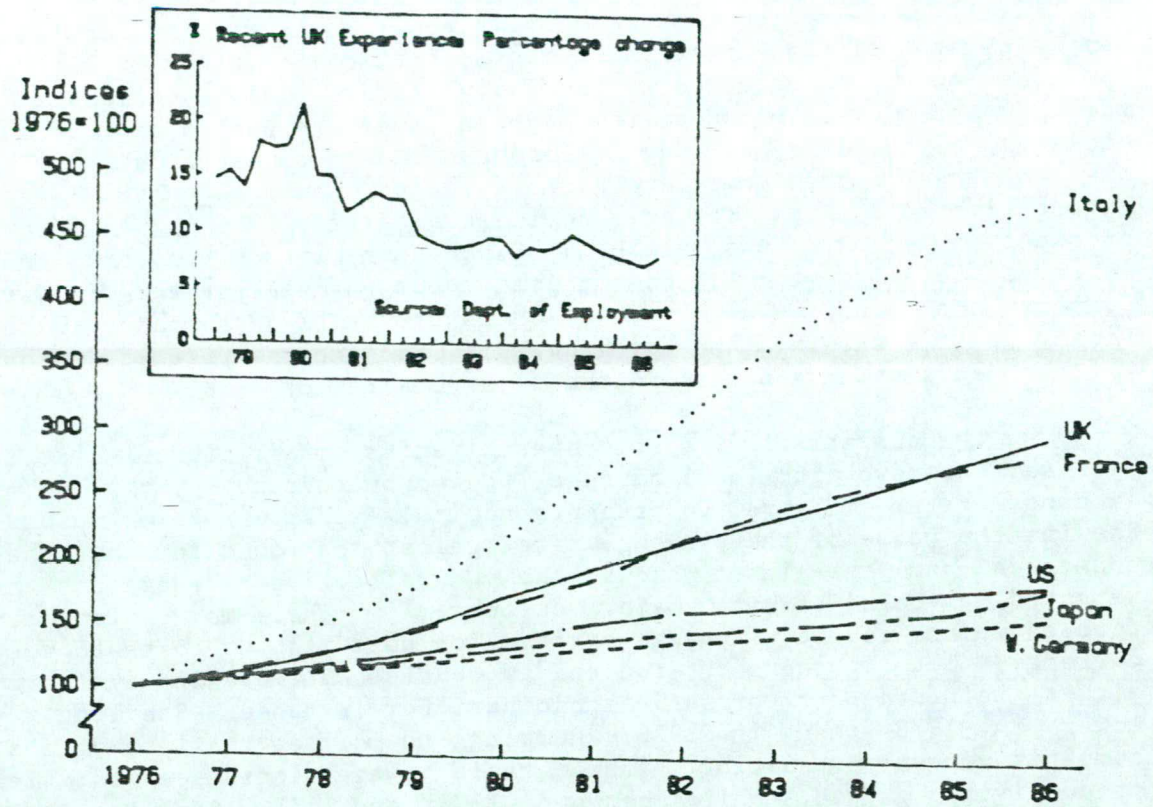
Both labour and capital are important in the determination of competitiveness. This section examines labour while capital is analysed in the next. Figure C1 starts the story by plotting the path of pay increases in the UK and its major competitors over the past decade. It must be noted that the use of indices helps to show movements over time but masks the actual levels. In the case of wages the UK level is lower than the other economies'. As in the rest of the section, the graph is for manufacturing alone, by no means fully representative of the whole economy, but nevertheless a useful international indicator since approximately two thirds of UK visible exports are currently manufactures, which represents about 40 per cent of total current-account receipts on the balance of payments. The chart shows how UK money wages have tended to rise faster than in the US, Japan and West Germany, about the same as in France and much slower than in Italy. Since 1980, increases in the UK have slowed although the coal strike probably affected the profile of the growth of wages and salaries as shown in the inset of recent performance.

Changes in pay per hour need to be set alongside changes in productivity. Figure C2 shows a distinct cyclical pattern of productivity in all countries. Care needs to be taken in comparing countries since the timing of the output cycle can differ internationally, and the several causes of productivity growth have differing importance at different times. In particular, the series for any one country is a weighted average of performance in many work units of obviously differing productivity levels. A given change in overall performance can be caused either by changes in individual indicators, or by changes in weights, or (usually) by a mixture of the two. In the second half of the 1970s, the UK's performance was relatively poor, with productivity more or less flat. Since then, the UK has improved relative to past experience and to its major competitors, particularly the US, France and Italy.

As the inset chart shows, UK productivity grew relatively quickly from the end of 1980 [as output increased strongly and employment fell rapidly.]

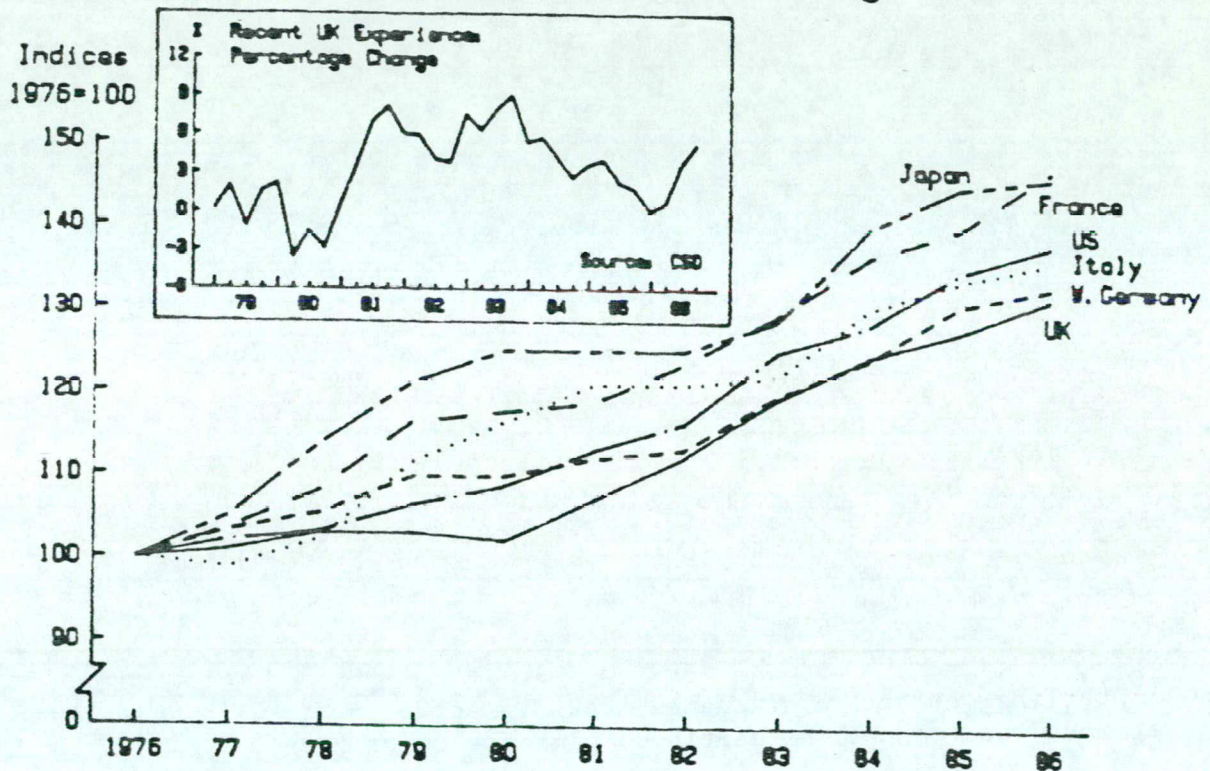
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FIGURE C1 Wages per head in Manufacturing



Sources: OECD, Dept. of Employment

FIGURE C2 Labour Productivity: Output Per Person Hour in Manufacturing



Source: NIESR

The next step is to combine hourly labour costs with productivity estimates to display unit labour costs, in local currency, in Figure C3. The combined effect of a generally fast rise of labour costs in the UK and lower productivity growth over the period generated a markedly higher increase in unit labour costs in domestic currency in the UK than in the competing countries other than Italy. This faster rate of increase is particularly noticeable between 1976 and 1980 when productivity growth was slack. Since then, the UK's position has improved relative to France and Italy, but not against the US, West Germany and Japan. The inset graph is of the UK performance in the recent past, showing the low growth in 1983 and the rise after that which appears to have peaked in the first quarter of 1986.

To make the comparison of cost competitiveness across countries it is necessary to move from local currency to common currency by the use of exchange rates. Figure C4 presents nominal exchange rate movements, showing the value of the exchange rate against the Pound for the other countries and the inset shows the UK effective rate against the weighted average of its major partners.<sup>10</sup> There may be long-run forces which relate exchange rates to unit labour costs in home currency, but in the short-run the two series can move in ways which either reinforce or offset each other. For instance, Sterling was lower in 1978 than in 1976, helping to offset the loss of cost competitiveness resulting from rapid wage increases and low productivity growth, while between 1978 and 1980 Sterling rose strongly against other currencies, putting pressure on competitiveness over this period. Since 1980, the effective rate has declined ~~largely because of the fall in oil prices~~ tending to improve the UK's competitive position on average relative to the other countries. The Japanese rate has shown a rising trend, and is an example of a country in which unit wage costs have risen less quickly in the longer term than its competitors', which has improved its competitiveness, made its goods relatively attractive, and put upward pressure on its exchange rate

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<sup>10</sup> Sterling effective exchange rate is actually its weighted average against those countries mentioned plus the Swiss Franc.



FIGURE C3 Unit Labour Costs: Labour costs per unit of output in manufacturing in local currency

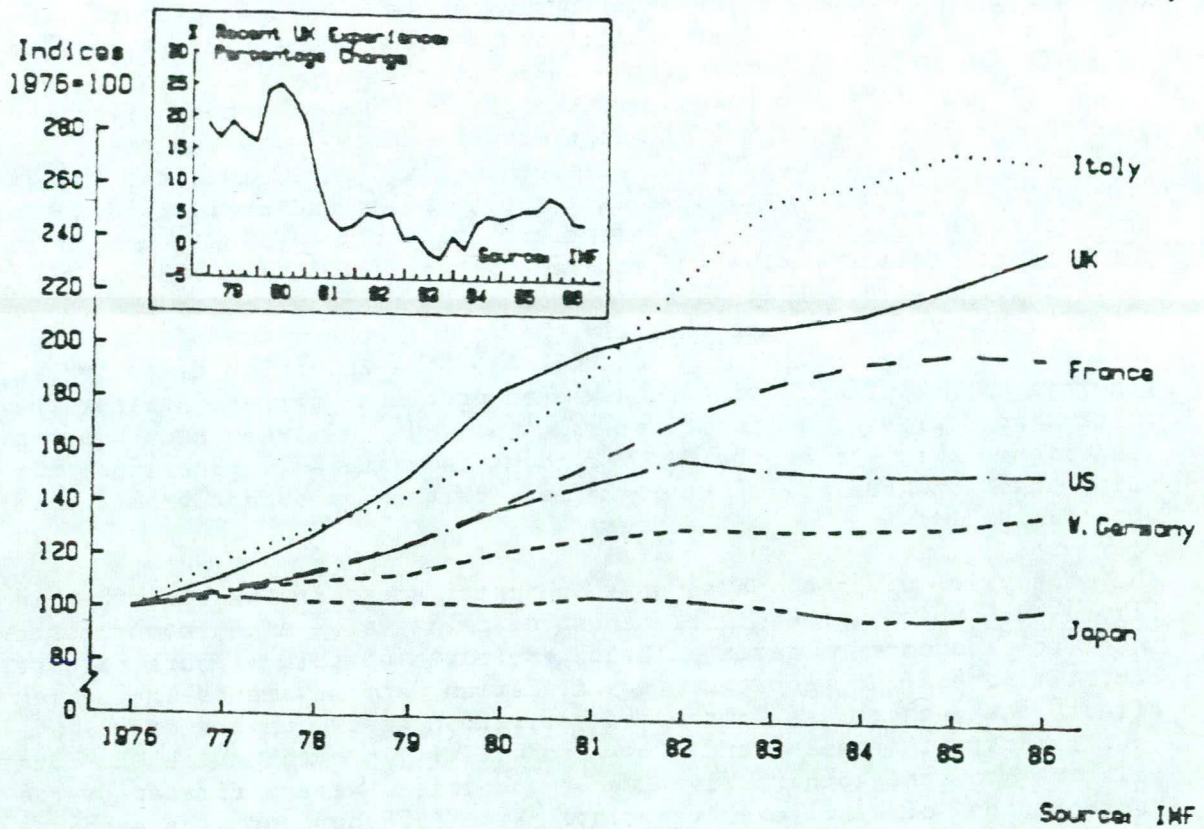


Figure C4 Exchange Rates to Sterling

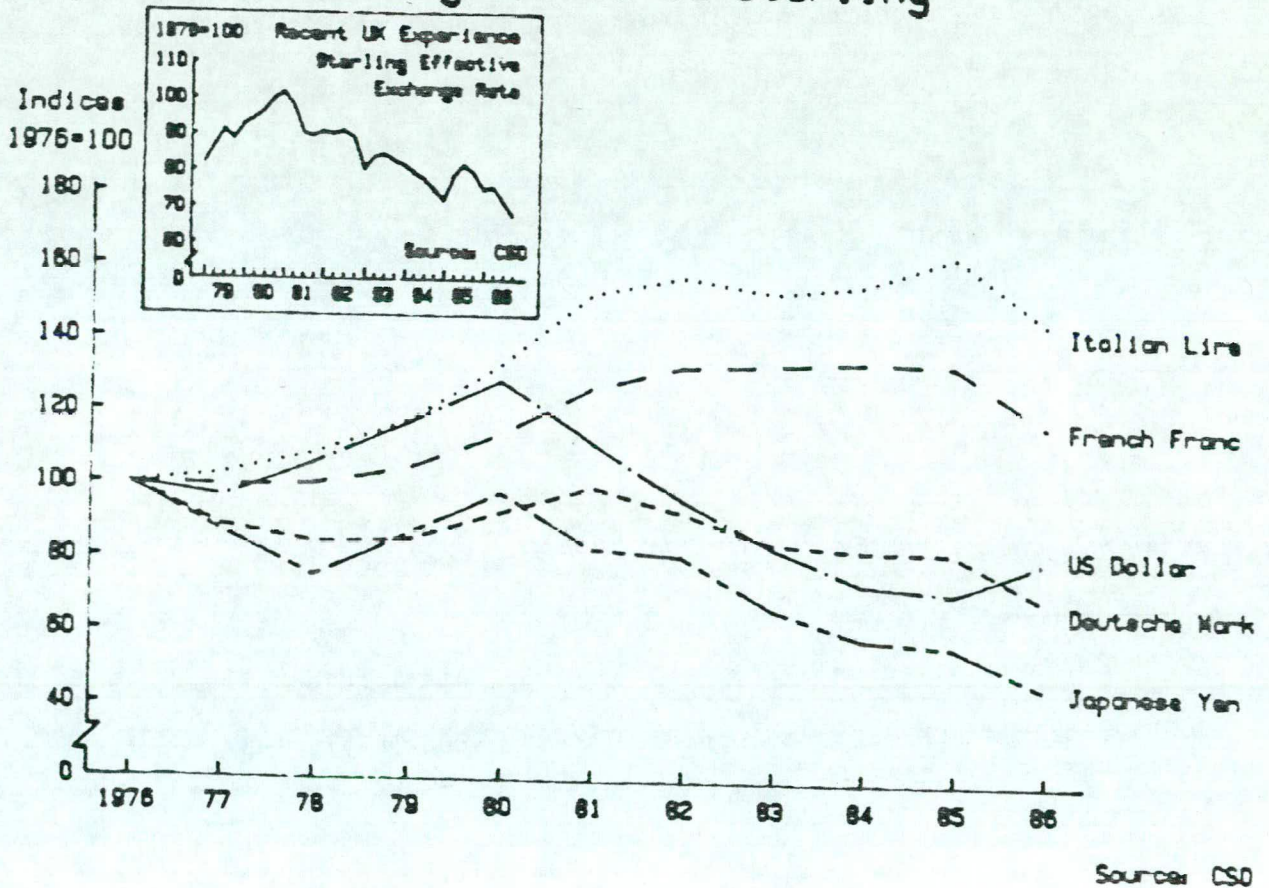


Figure C5 now combines these various elements into unit labour costs relative to those in other countries and extends the picture back to 1966 in order to put recent developments in perspective. This gives some insight into the pattern of changes in UK cost competitiveness. On the graph, lower values mean lower unit costs and therefore improved competitiveness. It is clear that, using this measure, the UK became much less competitive in the late 1970s and early 1980s, but that this has been partly reversed more recently. Against the USA in particular, relative costs improved between 1980 and 1984 so that competitiveness by 1984 had returned approximately to its mid-1970s level, the reason being<sup>11</sup> largely the fall in the value of the Pound relative to the Dollar. Nonetheless, the position has reversed somewhat since then owing to a weakening of the dollar. Against the other countries, competitiveness improved in 1986 and against countries other than the US, was about the same as in the 1960s. In the words of NEDC(87)7,<sup>12</sup> this "offers Britain an exceptional export opportunity".

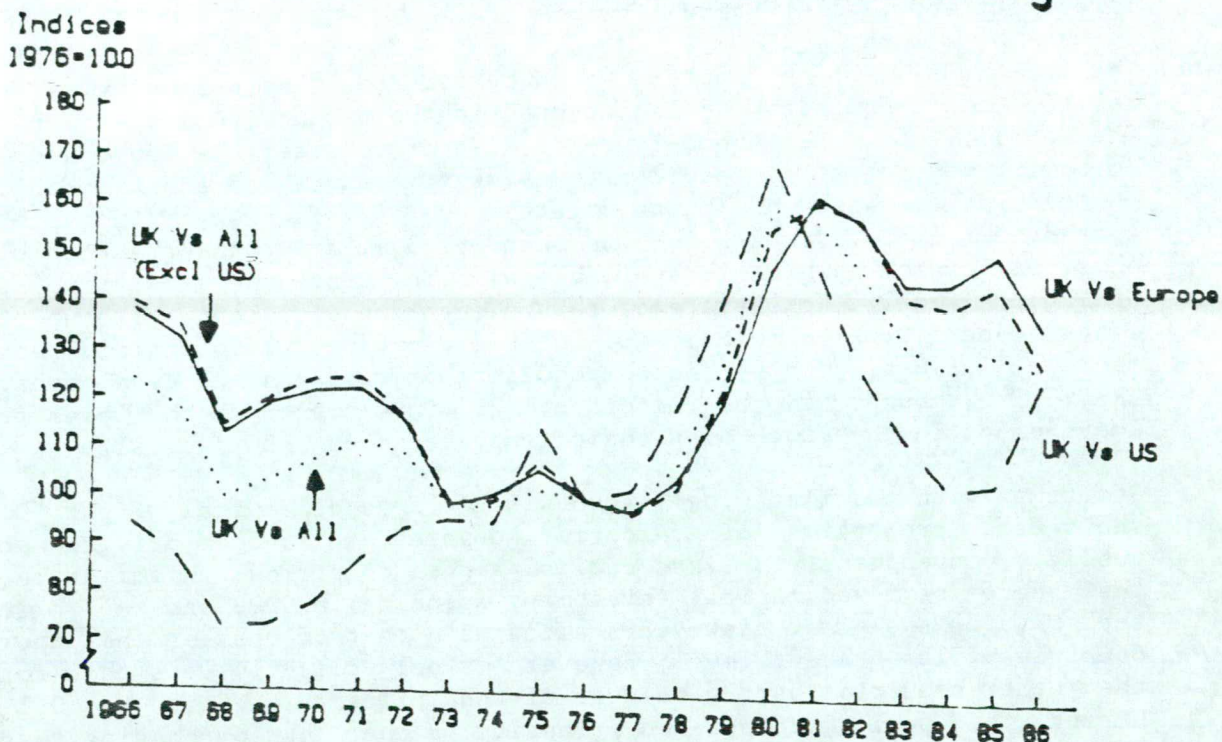
The analysis of the UK's cost competitiveness is taken further in Figure C6 which gives a breakdown of relative UK unit labour costs into its component parts. The determinants of this measure of cost competitiveness do not act in isolation, and movements in one may affect the others as discussed earlier. However, in the mid-1970s, labour cost increases and low productivity growth in the UK, both relative to the other five major countries, were mitigated by the depreciation of the exchange rate. From 1978 however, the exchange rate appreciated and this, combined with the rapid increase in relative labour costs and lower productivity growth, led to a sharp increase in relative labour costs in 1979 and 1980. However, the improvement in relative productivity since 1980, combined with the reversal of the exchange rate position and the slower growth of relative labour costs, has improved competitiveness in the 1980s.

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<sup>11</sup> "UK Competitiveness", NEDC (85)25, 1985, has more details.

<sup>12</sup> "Britain's UK Export Opportunities", NEDC (87)7, 1987, contains a discussion.

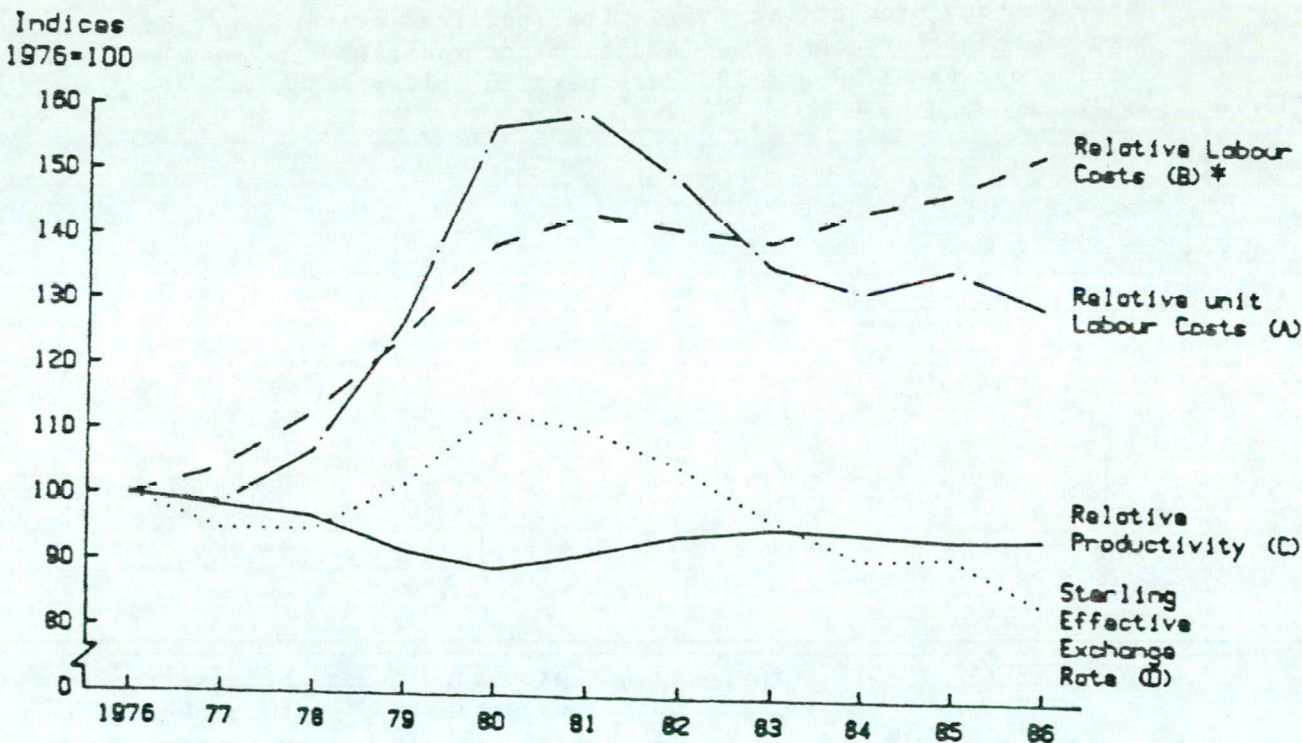
**FIGURE C5 Cost Competitiveness: In terms of relative unit labour costs in manufacturing**



Europe = Germany, France, Italy, Netherlands and Belgium  
 All = Europe plus USA, Canada and Japan

Sources: Bank of England

**FIGURE C6 Cost Contributions: Sources of changes in UK cost competitiveness in manufacturing**



A = B/C x D  
 \* in local currencies

Sources: NIESR, Annual Supplement to Monthly Review of External Trade Statistics

## Section D

### Investment and Capital Productivity

The previous section looked at competitiveness and productivity in relation to the quantity of labour used in the productive process. But the quality of the labour force is also of considerable importance. Improving the quality requires investment in education and training. In this way the stock of "human capital" can be raised which increases the productive potential of the economy. Similarly, the quantity of physical capital which is available will influence the effectiveness of labour. Finally, the state of technology, the efficiency with which labour and capital combine, will influence productive potential. Many factors influence this, but expenditure on research and development (R&D) is thought to be important as investment which leads to improvement in the stock of technical knowledge or "R&D capital".

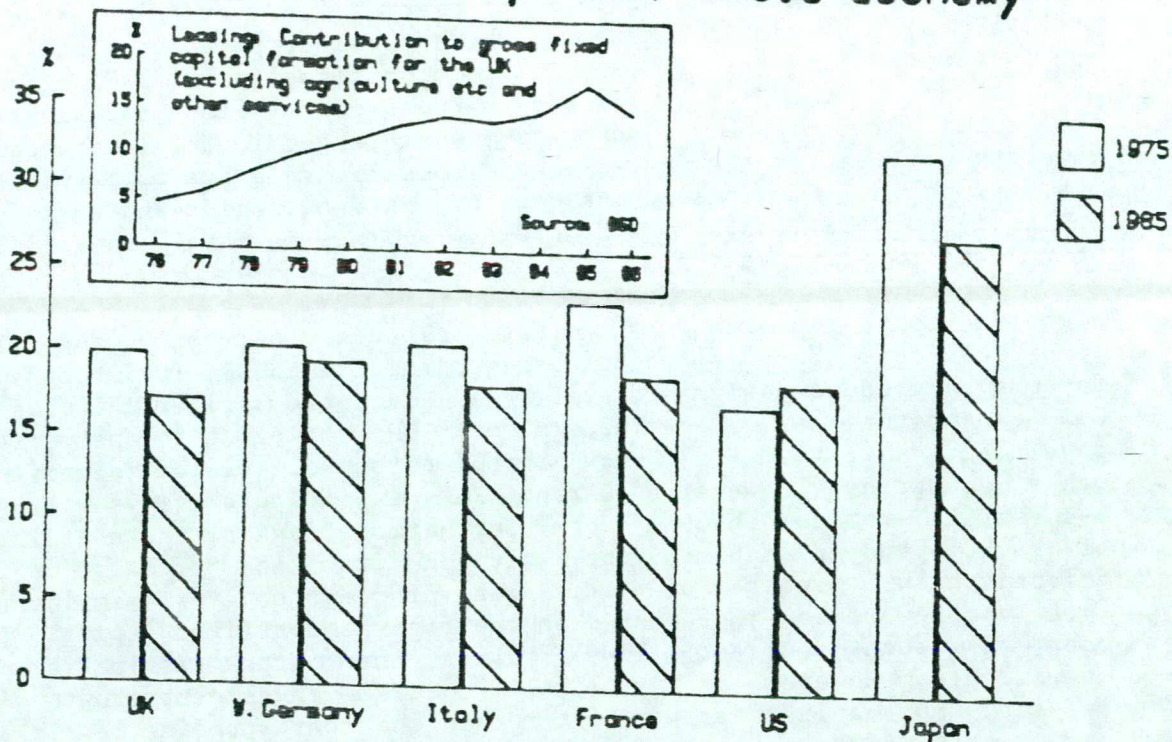
Starting with the most widely-acknowledged type of capital, Figure D1 shows the proportion of resources devoted to total, (private and public), investment in fixed capital across countries. This measure, the share of fixed capital investment spending in GDP, has fallen in the UK in the last few years along with that of most of the other countries. Its recent level, however, is only slightly less than for the other countries partly because of the influence of North Sea Oil. During the period considered, leasing, rather than purchasing, has increased in all the countries. Though consistent international figures are not available, the inset chart shows the rapidly rising trend for the UK.

A high investment share will not improve productive performance if it is spent on unwisely-chosen fixed capital projects. One indicator of the effectiveness of investment is fixed capital productivity, analogous to labour productivity, which<sup>13</sup> estimates the amount of output produced by each unit of capital. Figure D2 suggests that UK whole-economy productivity of capital declined over the period, as did that of the other countries, although not generally as quickly. The UK decline between 1979 and 1982 was particularly steep *but has subsequently flattened out.*

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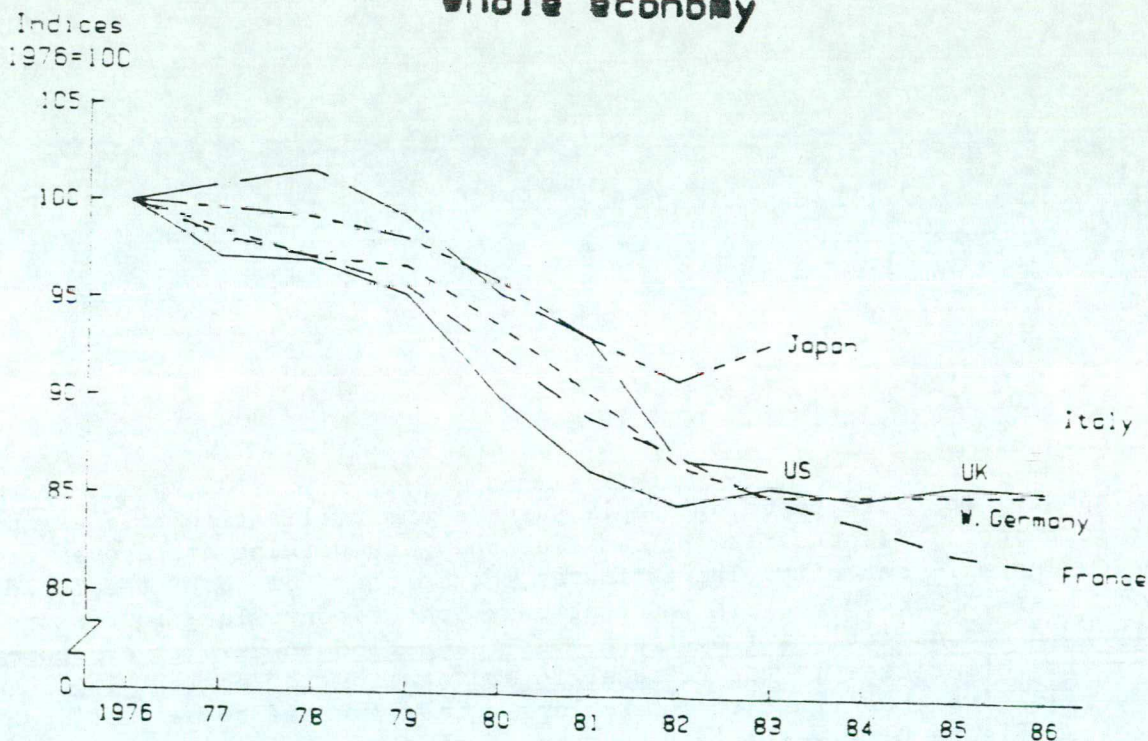
<sup>13</sup> Unfortunately this measure is not precise, in part because the stock of fixed capital is difficult to estimate, in turn because true depreciation is hard to calculate; obsolescence is often more important than physical deterioration of fixed capital assets.

**FIGURE D1 Investment Shares: Shares of gross fixed capital formation in GDP based on national currency, current prices, whole economy**



Source: DECD

**FIGURE D2 Capital Productivity: GDP per unit of capital, national currency, constant 1980 prices, whole economy**



Japan and US 1984, 1985 and 1986 not available

Source: EEC

Another way of looking at the effectiveness of the stock of fixed capital is the extent to which it is used. An indication of capacity utilisation is given in Figure D3, which shows comparative figures in manufacturing for the UK and its major competitors.<sup>14</sup> Changes in utilisation in the UK were similar to those of the other countries in the early part of the period but somewhat larger in the later years. However, utilisation has increased considerably relative to trend from its trough in 1981. This is due both to rationalisation and a revival in activity. Utilisation in the UK is now approximately back to its 1979 level relative to trend.

Spending on research is often related not only to price competitiveness but also to non-price competitiveness, involving such factors as product design and quality as discussed earlier. Figures of R&D expenditure as a percentage of GDP, analogous to the capital investment share in D1, show the UK to be well-placed relative to other countries. However, current R&D expenditure flows will not necessarily reflect the R&D stock. Furthermore, again, the usefulness of such spending depends not only on its size but also on its effectiveness. Because of estimation problems however, similar but more complex than those noted on the figures for fixed capital, the use of such current flows, rather than stock estimates, is unavoidable. However it is likely that R&D investment growth will reflect R&D capital growth better than the corresponding levels and may better indicate the contribution of R&D to the growth of productive potential.<sup>15</sup> Figure D4 therefore gives the levels of spending in 1975 and 1983 and shows that in the UK, R&D expenditure fell over the period whereas the other countries, except Italy, experienced increases.

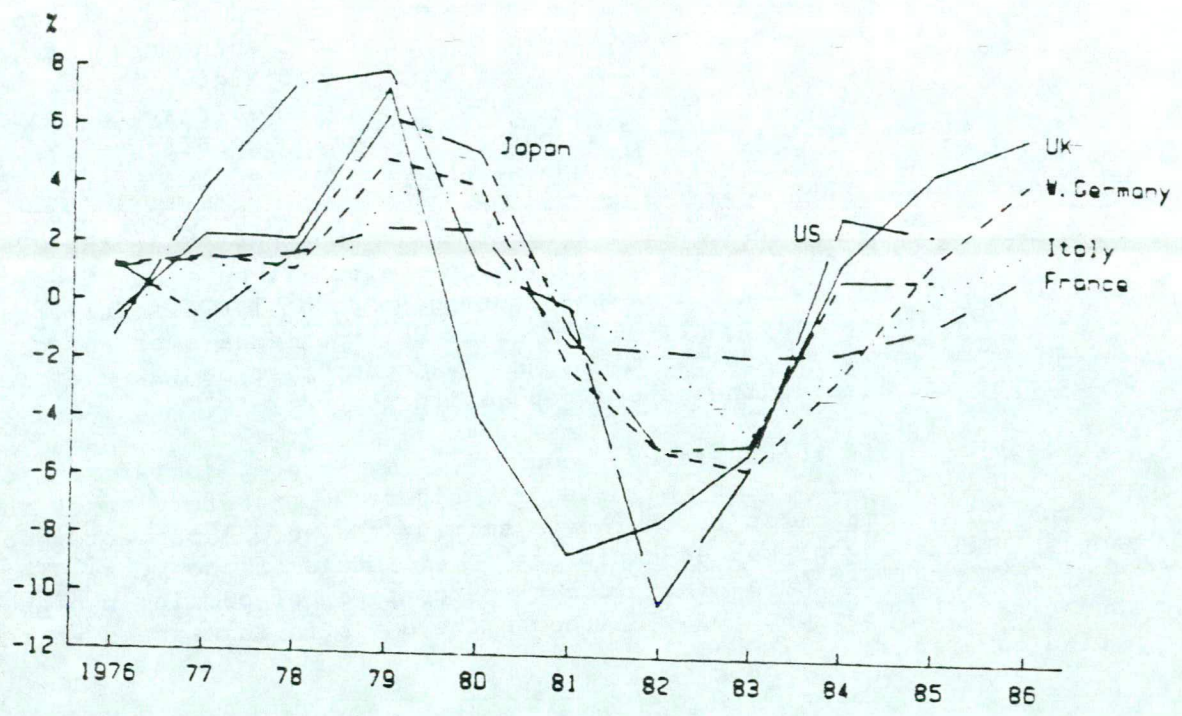
Isy trying  
to supply  
more up  
to date  
figures for UK

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<sup>14</sup>The figures are based on sample surveys and utilisation relates to proportions of respondents who consider they are working at, above, or below 'normal' capacity. The estimates should therefore be interpreted with care, particularly in international comparisons. The figures are reported as deviations from trend over the period to help to overcome any dissimilarities in the national interpretations of normal.

<sup>15</sup>Comparative R&D statistics take longer than average to be published so that Figure D4 gives a less up-to-date picture than most others.

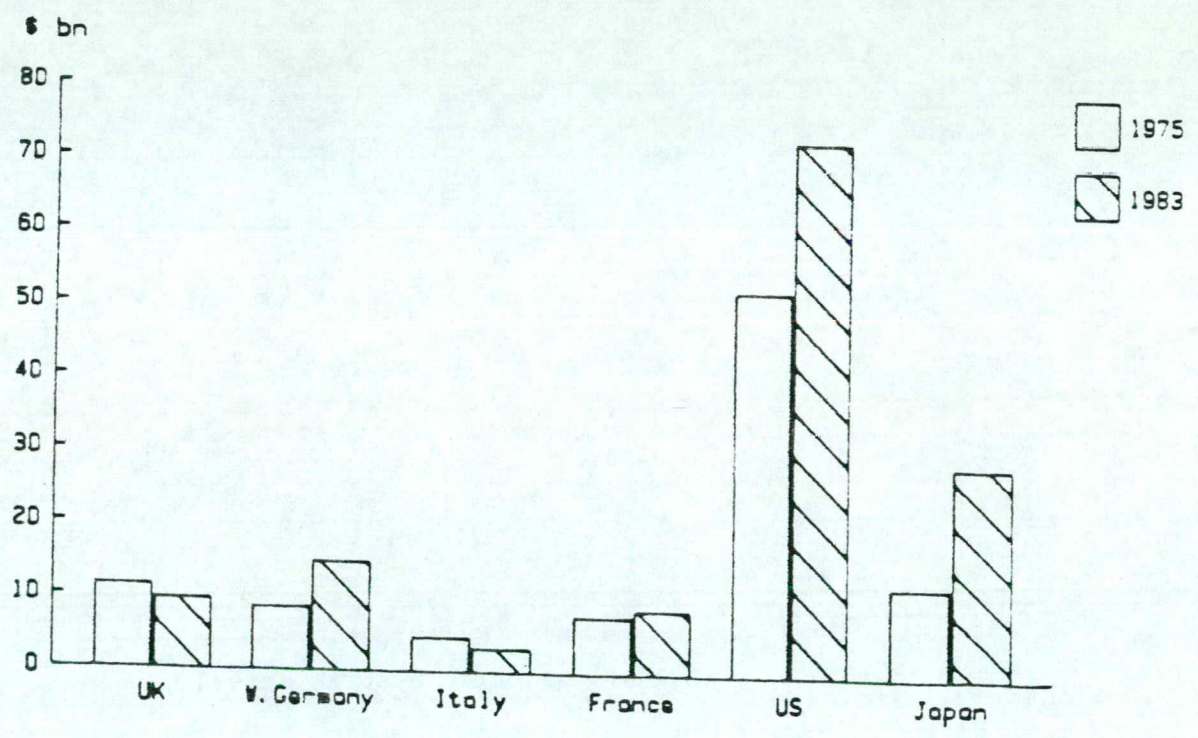
FIGURE D3 Capacity Utilisation: Percentage deviation from trend in manufacturing industry



Japan and US not available 1986

Source: EEC

FIGURE D4 Gross Expenditure on R & D: Constant 1980 \$ prices (purchasing power parity basis)



Source: OECD

The third type of capital is that which is embodied in the labour force in the form of the skills and productive potential of the people. Spending on education and training, investment in human capital, contributes towards increasing and/or maintaining the stock of human capital in an analogous way to investment spending on fixed and R&D capital. The expenditure on education and training is carried out by both the private and the public sectors, so that the total stock of human capital depends on both. Figures on expenditure by the private sector are, however, unavailable consistently. Figure D5 therefore gives the percentage of GDP allocated to public education and related expenditure across countries<sup>16</sup> and shows that the UK's performance compares satisfactorily. Once again it must be stressed that the usefulness of this expenditure depends on its effectiveness as well as its size. The inset gives UK experience over a recent decade and shows a downward trend. Account must be taken of the demographic decline in the school population however.

Demographic differences across countries may make comparison of expenditure on education misleading. Figure D6 therefore takes the international comparison further by examining the actual percentage of people undergoing higher education as a percentage of the total. This shows the UK to have the lowest percentage of people in higher education in the recent past, although there was an increase over the period covered.

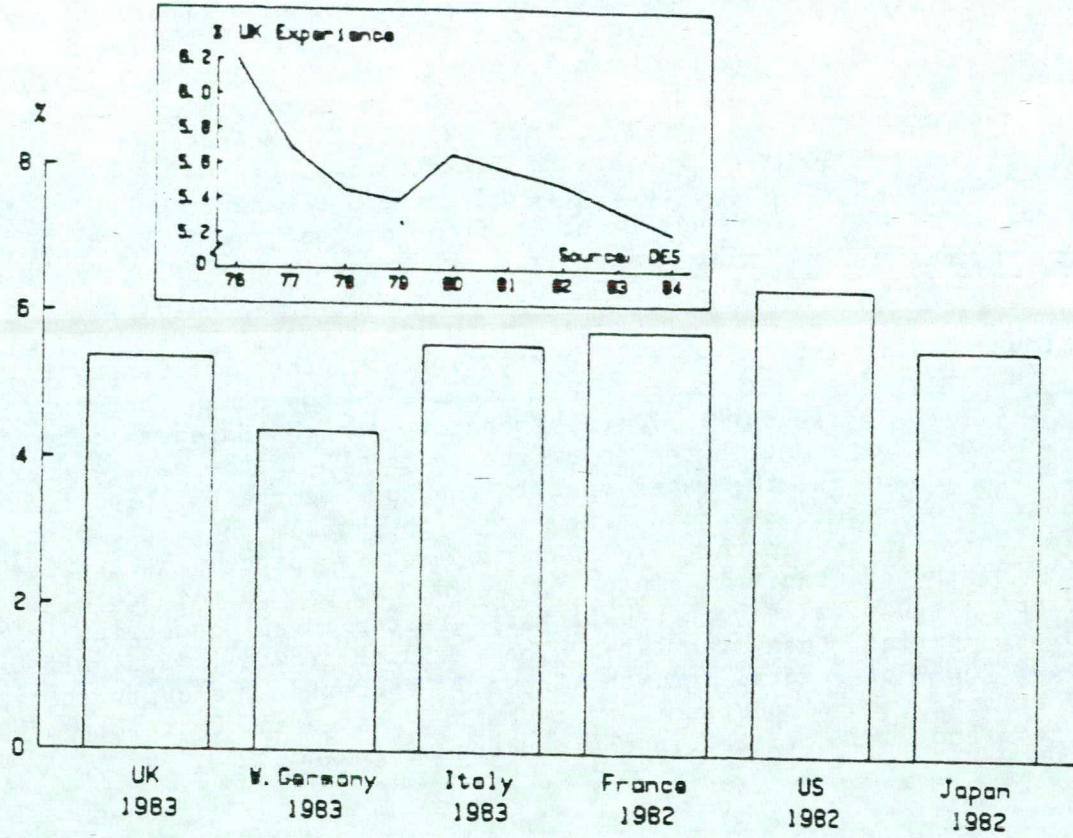
NEED  
revisiting  
demographic  
problem  
still applies  
to D6.

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<sup>16</sup>Comparative education allocations are also relatively slow to be published.

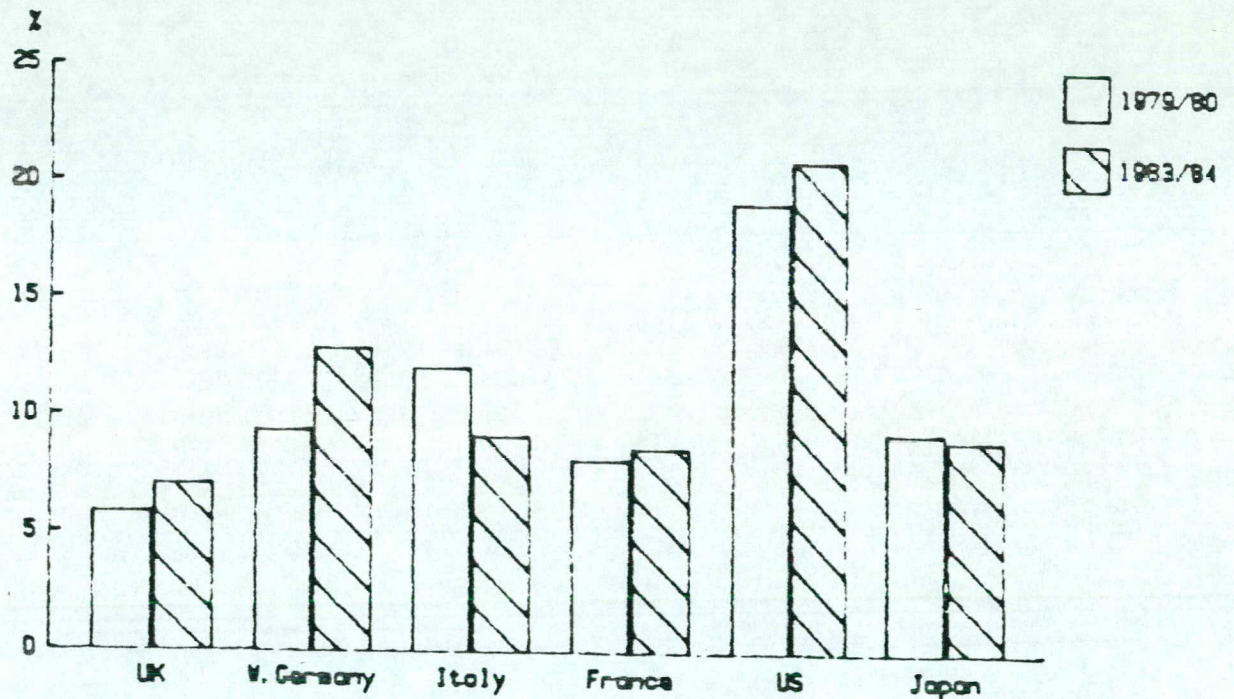


FIGURE D5 Public Education and Related Expenditure: Percentage of GDP



Source: Department of Education and Science

FIGURE D6 Students in Higher Education: Percentage of total in education



USA includes numbers in private education

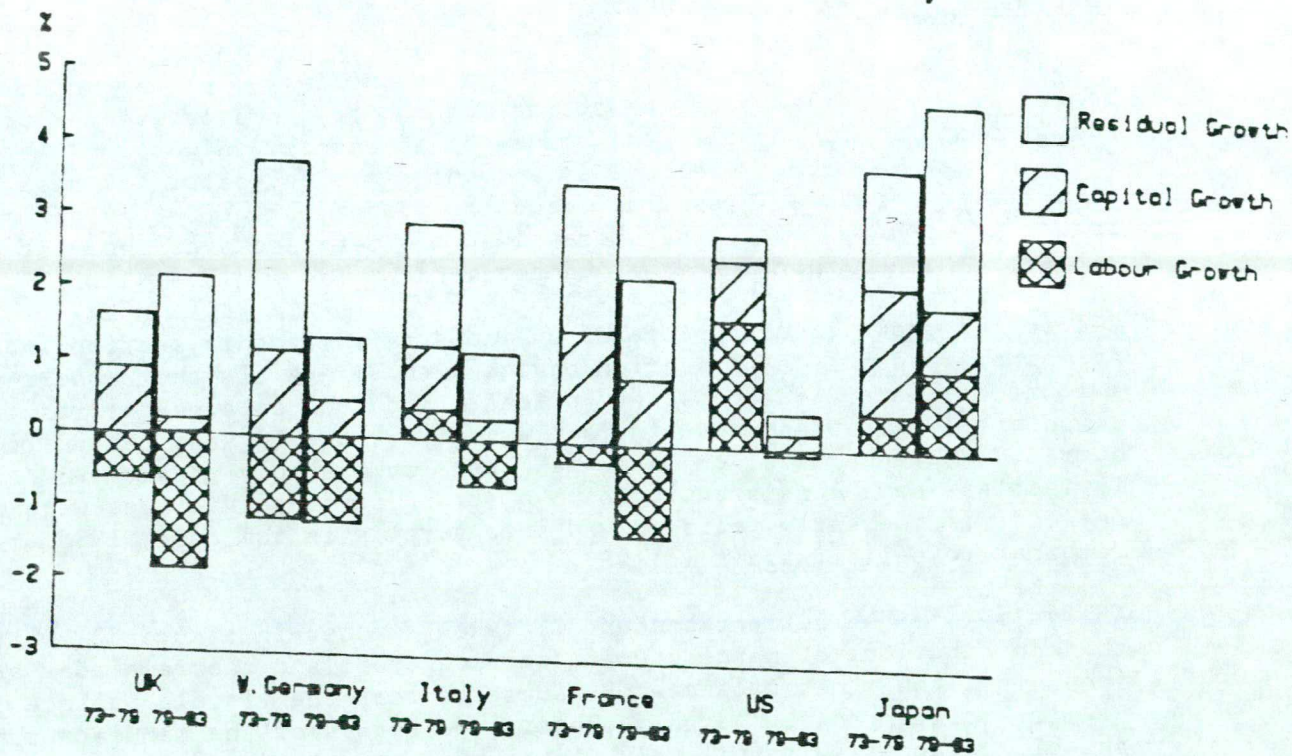
Source: UNESCO

The final chart in this section attempts to bring together aspects of both sections C and D. Total output is the product derived from the use of all resources including physical capital, human capital, R&D capital and labour. In principle, it should be possible to calculate the contributions of these inputs explicitly. Measurement problems mean that only those of labour and fixed capital can be assessed with any degree of accuracy. In Figure D7 therefore, the growth of output is split into the weighted contributions of labour and fixed capital and the remainder. The last is the growth of GDP which is not accounted for by labour and fixed capital, and is often referred to as the "residual" or the rate of technical change. The size of the residual will reflect the contributions of other influences on GDP growth including of course, R&D capital and human capital. The contribution of labour is largely negative for the European countries but is a strong contributor to growth in the US in the earlier period and to Japan in the later one. In the case of the UK this negative labour contribution resulting from the fall in employment is relatively large in the 1978-83 period and is not compensated for by the growth of capital since this was a period of accelerated scrapping. Capital's contribution is greater in all countries in the earlier period than the later. The residual growth is a significant proportion of total growth in all countries, except the US, emphasising the importance of technical change and therefore of R&D capital and human capital in the process of growth.

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<sup>17</sup>The weights used are shares of income generated in the production process which are paid to labour and capital respectively.

FIGURE D7 Contributions to Growth of GDP;  
Annual percentage change, constant prices



Source: EEC

## Section E

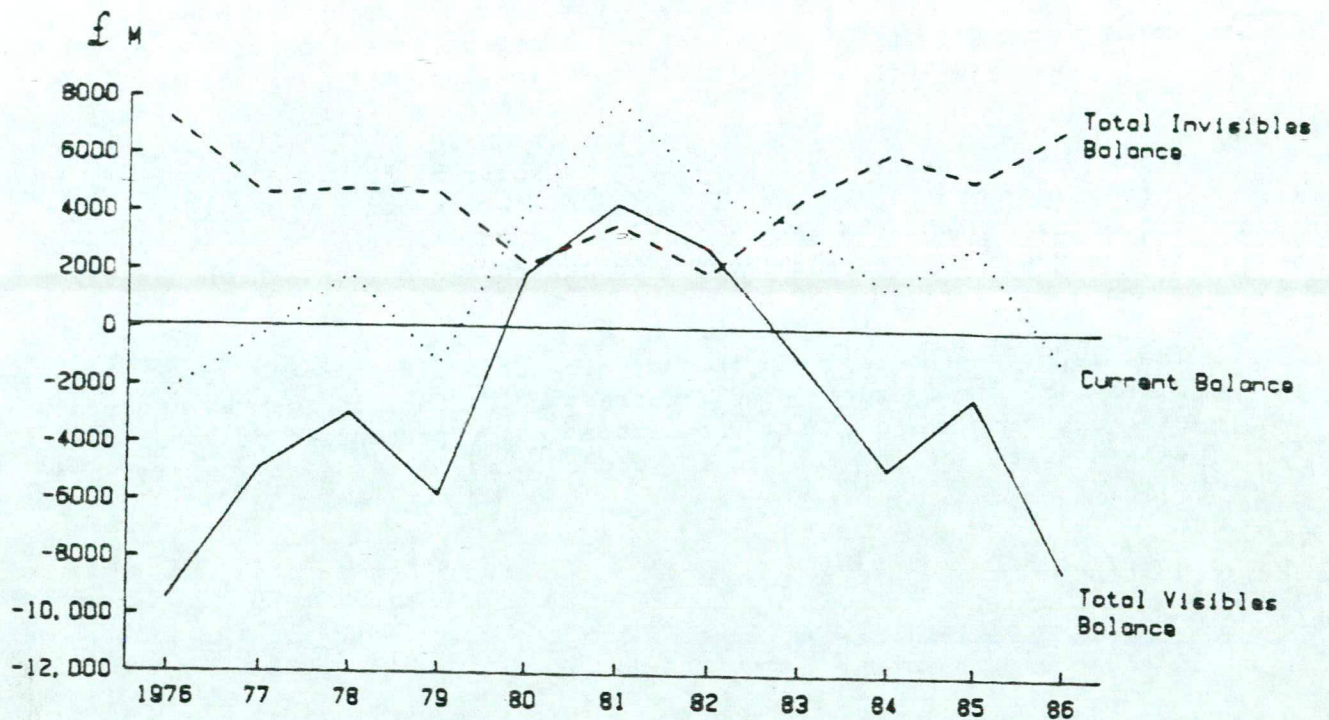
### International Trade

Trade in goods and services between countries can be mutually beneficial and the balance of trade, the difference between exports and imports, reflects the performance of an economy in world markets. The UK has a long history as a trading nation, partly because of insufficient natural resources, and the proportion of GDP going into trade in goods, averaging more than 20 per cent over the last 25 years, is higher than its major competitors'.

Section B shows trading patterns by industry while this section looks at other aspects. The section begins with Figure E1, the UK current account balance, in constant prices, and the balance for its two components; visibles and invisibles. Over the 10 year period, the current balance has on average been comfortably positive, and invisibles have consistently shown a strong surplus. Visibles were in deficit in the early years, moved into surplus in the early 1980s but returned to deficit again in 1983.

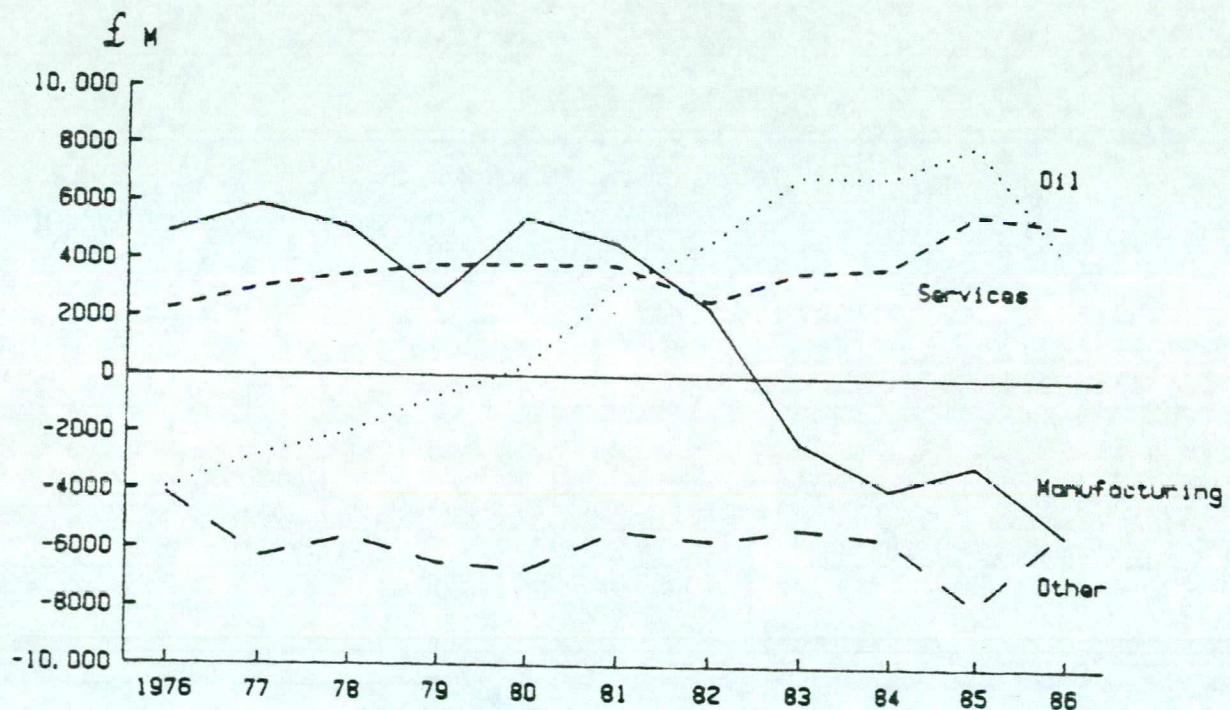
Analysis of the current account is taken further in Figure E2, where the contributions of manufactures, services, oil and the remainder are shown by their net balances. E2 suggests that the visible balance in E1 is influenced by largely opposite movements of the manufacturing and oil balances, with oil going into surplus in 1980 and manufactures going into deficit for the first time in 1983. The steady surplus on services makes a strong contribution to the invisible balance in E1, while the deficit on other goods reflects to some extent the natural resource constraint mentioned above.

FIGURE E1 UK Current Account Balance  
Constant 1986 prices



Source: DTI

FIGURE E2 UK Trade Patterns - Balances  
Current Prices



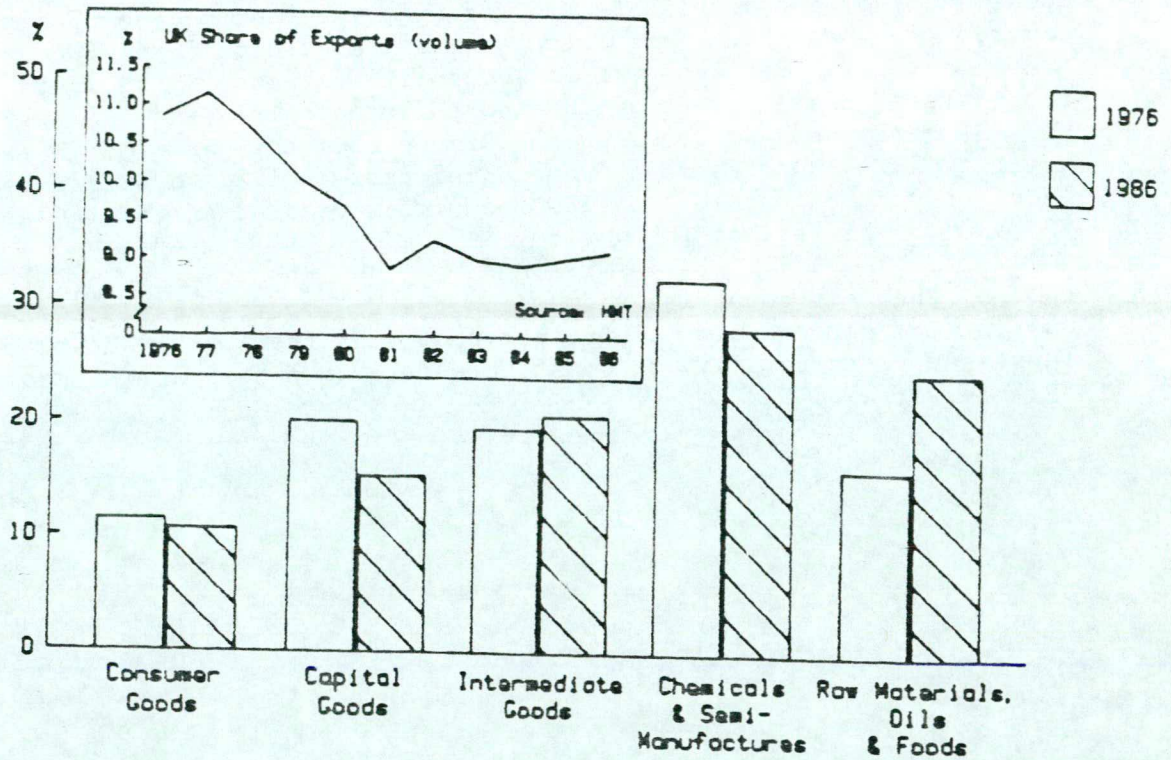
Source: DTI

Section B analyses by industry the trade balances in E1 and E2. Figures E3 and E4 examine visible imports and exports by category of goods in which the UK trades and the way in which the proportions of each have changed over a 10 year period. Exports of consumer and capital goods, constituted nearly a third of total visible exports in 1976 but declined to about a quarter in 1986, the largest decline in share being of capital goods. Over the same period, the share of semi-manufactures fell from around a third to just over a quarter, while raw materials etc increased its share by 50% as a result of the increased importance of oil. The inset shows how UK exports as a percentage of world exports, measured in volume terms, have changed recently and depicts the reverse in the downward trend which has taken place since 1981.

The imports picture in E4 is something of a mirror image of E3; large rises in manufactures and a corresponding fall in the raw materials etc category. The inset of imports as a percentage of total final expenditure, again measured in volume terms, shows a steady rise over time.

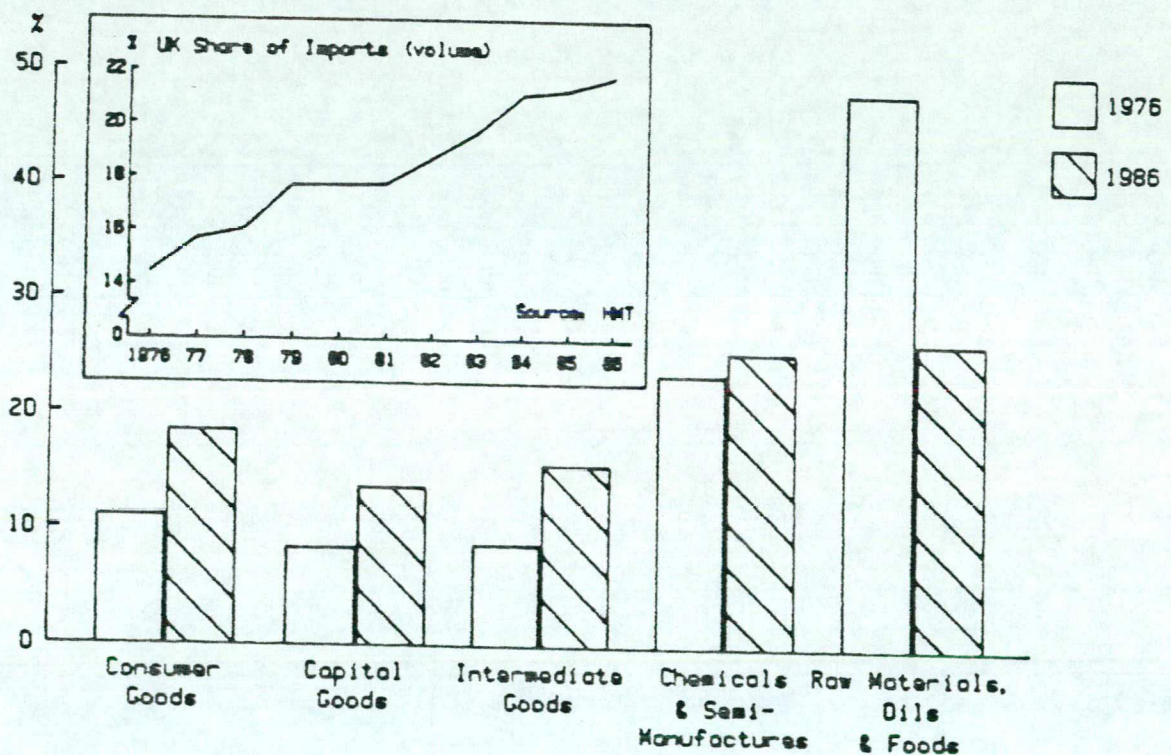
Unit pro  
quo for  
insertion in  
UK export  
share.

FIGURE E3 UK Export Pattern: Percentage of total value



Source: CSD

FIGURE E4 UK Import Pattern: Percentage of total value



Source: CSD

E5 and E6 give country of destination of UK visible exports and country of origin of visible imports over the last decade. The period covered is when the UK consolidated its membership of the EEC and the trade patterns reflect the consequential effects. E5 shows that the four largest destinations of UK exports in both 1976 and 1986 were the US, Netherlands, W Germany and France. But the share of UK exports going to EEC countries rose from 36 per cent in 1976 to 48 per cent in 1986 at the expense of the OECD countries other than the EEC and the US, and of the rest of the world.

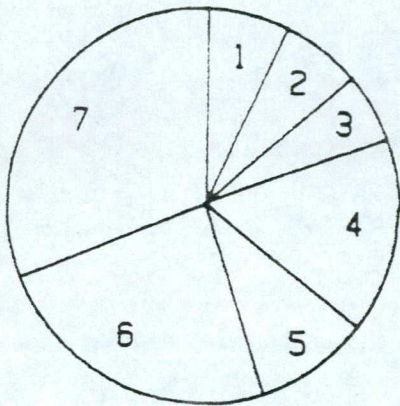
In E6, the four countries from which the UK imports most are the same as in E5, and again the importance of the EEC is shown to have increased considerably to constitute more than half of UK imports of visibles in 1986.



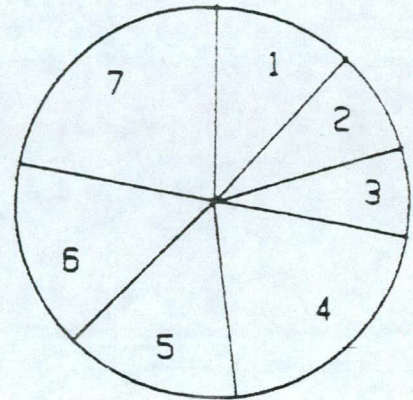
A significant contribution to the balance of payments is made by trade in invisibles, the main elements of which are transport, travel and investment income with a residual 'other services' item. Figure E7 gives comparisons across countries. The UK has consistently earned the second largest surplus in world trade in invisibles after the US. Its receipts for invisibles are larger than those of all countries except the US and France.

E8 provides a breakdown of the main components of invisible receipts and payments. The UK's favourable balance of invisible trade derives mainly from investment and other services, which is true also of the US. For France and Italy travel has been a major factor.

FIGURE E5 UK Export Markets: Percentage of total value



1976

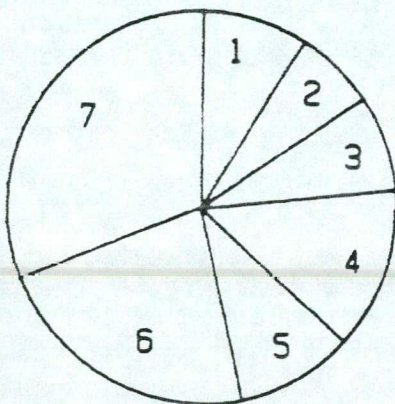


1986

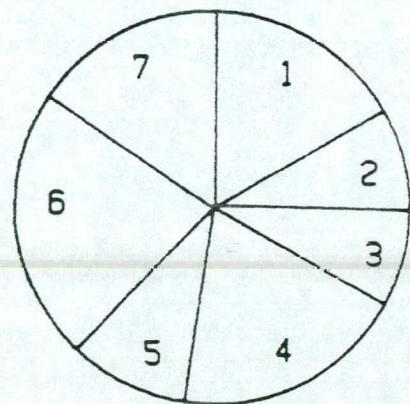
- 1 = W. Germany
- 2 = France
- 3 = Netherlands
- 4 = Other EEC
- 5 = US
- 6 = Other OECD
- 7 = Rest of World

Source: UK DTS

FIGURE E6 UK Import Markets: Percentage of total value



1976



1986

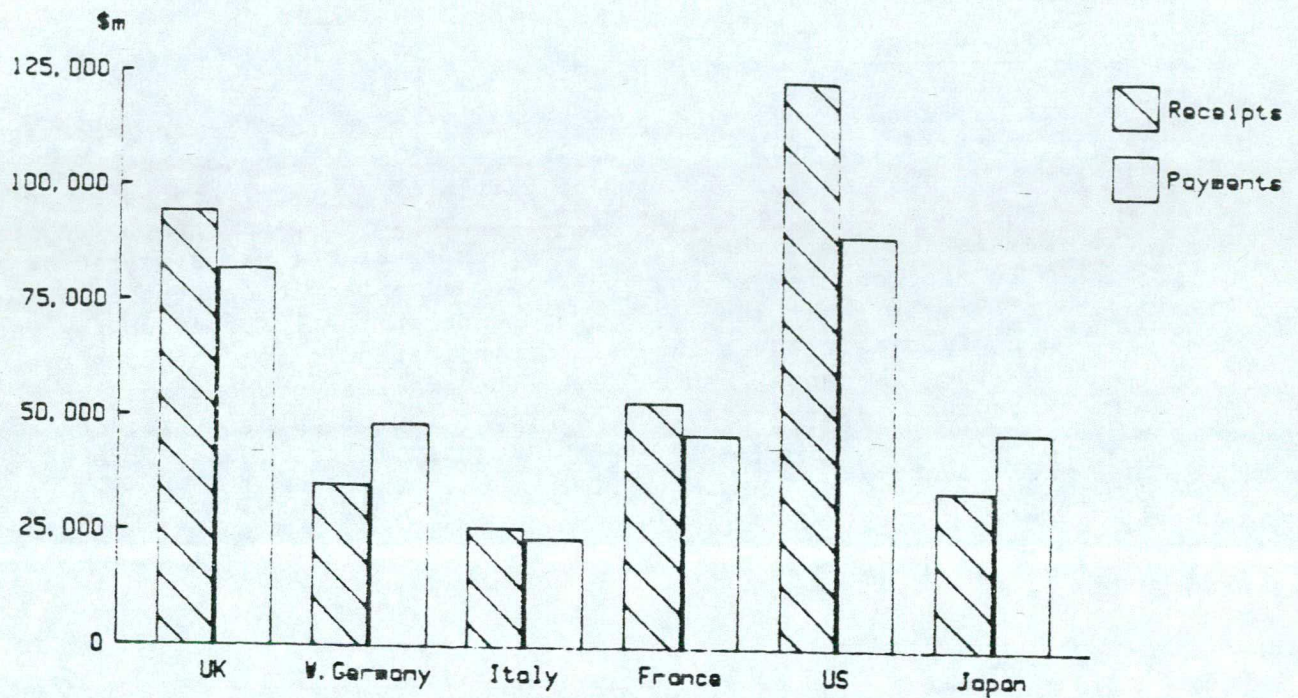
Source: UK DTS

## Section F

### The Labour Market

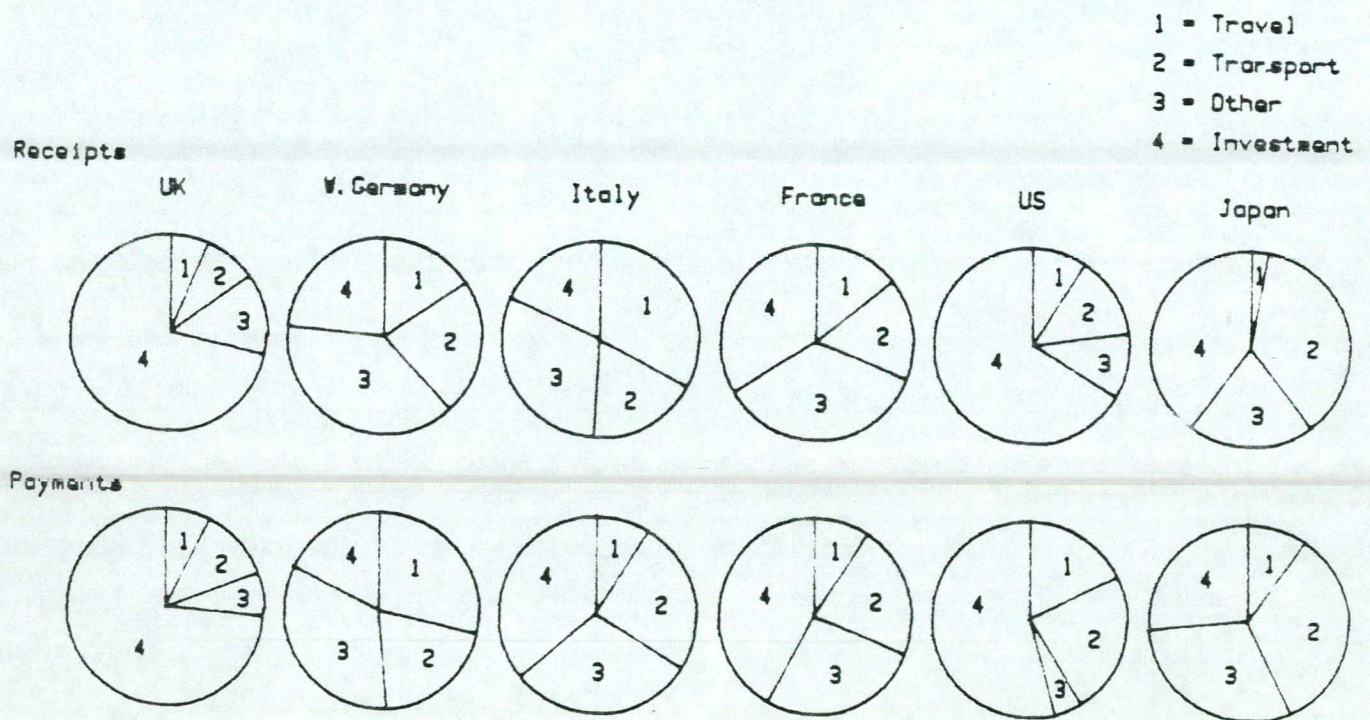
The age structure of the population of a country is an important determinant of the numbers of people available for employment. Figure F1 gives comparable proportions of people of "working age" and those below and above it. The labour force (employed plus unemployed) in practice is smaller than the numbers suggest because some people's "work" is not counted eg housework, and some people leave the labour force eg early retirement. The proportion in the 16-65 group however has been increasing over the period considered in all the countries, although the UK and France have the smallest proportions, whilst Germany had the fastest growth. The proportion of males of working age declined in France, but increased slightly in the UK and more so in the other countries.

FIGURE E7 Invisible Trade, 1984



Source: British Invisible Exports Council

FIGURE E8 Components of Invisible Trade, 1984



Source: British Invisible Exports Council

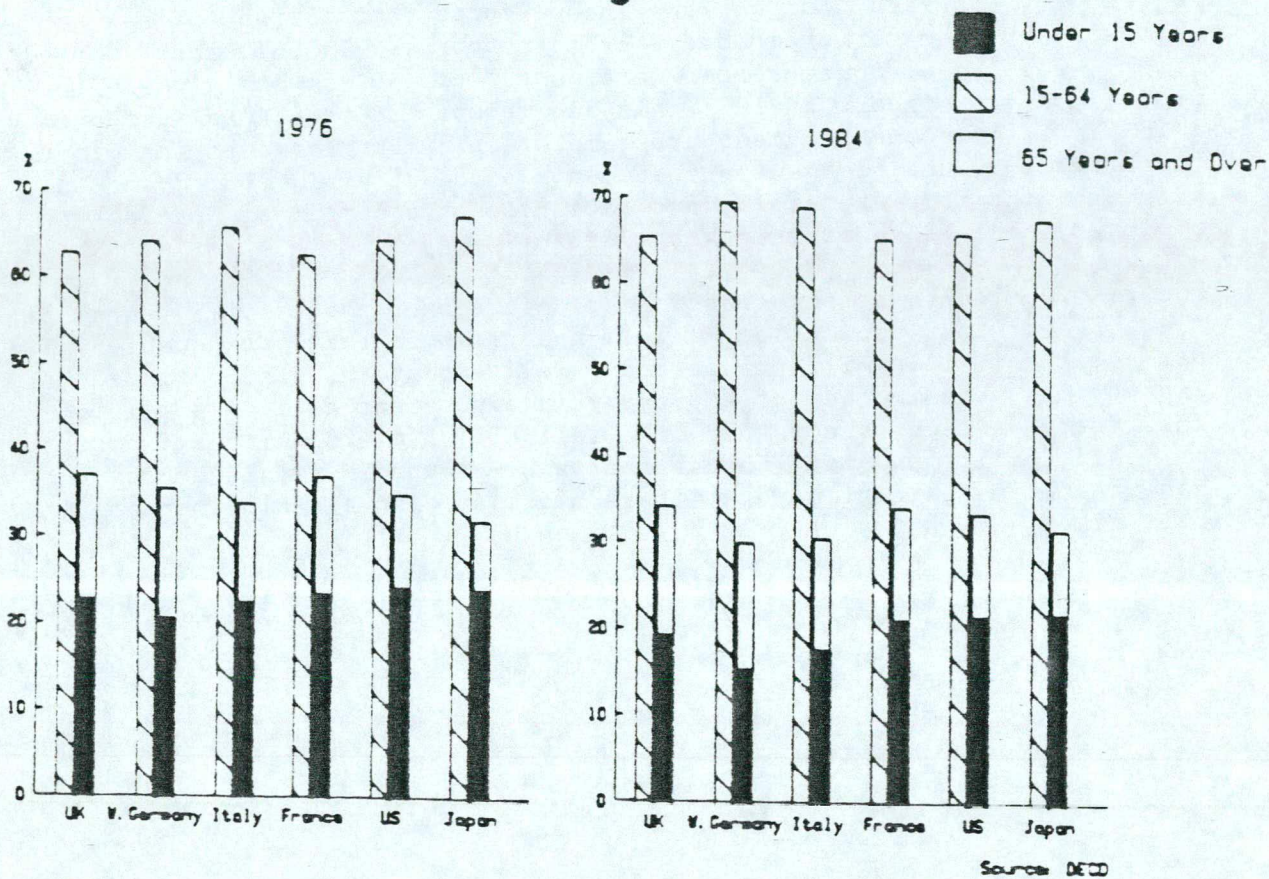
Figure F2 analyses further the labour force composition, by sex and whether employed or unemployed across countries. In 1976 about three fifths of the labour force were men, except in Italy where the proportion was higher. By 1985 this had reduced in the UK to just over a half as male unemployment and female employment rose. In the other countries too, unemployment pushed men's share of employment down; and although the female unemployment rate rose, the percentage of females employed increased except in West Germany.

Figure F3 looks at the changing structure over the last 10 years of the UK working population.<sup>18</sup> This has grown in the last decade by 7 per cent or 1.8 million people. Self employment has continued to expand but the number of employees in employment fell by a million. This drop has been as a result of a fall of 1.5 million men and a rise of half a million women. Though the major growth in female employment has been in part-time work, there has also been a small increase in full-time.

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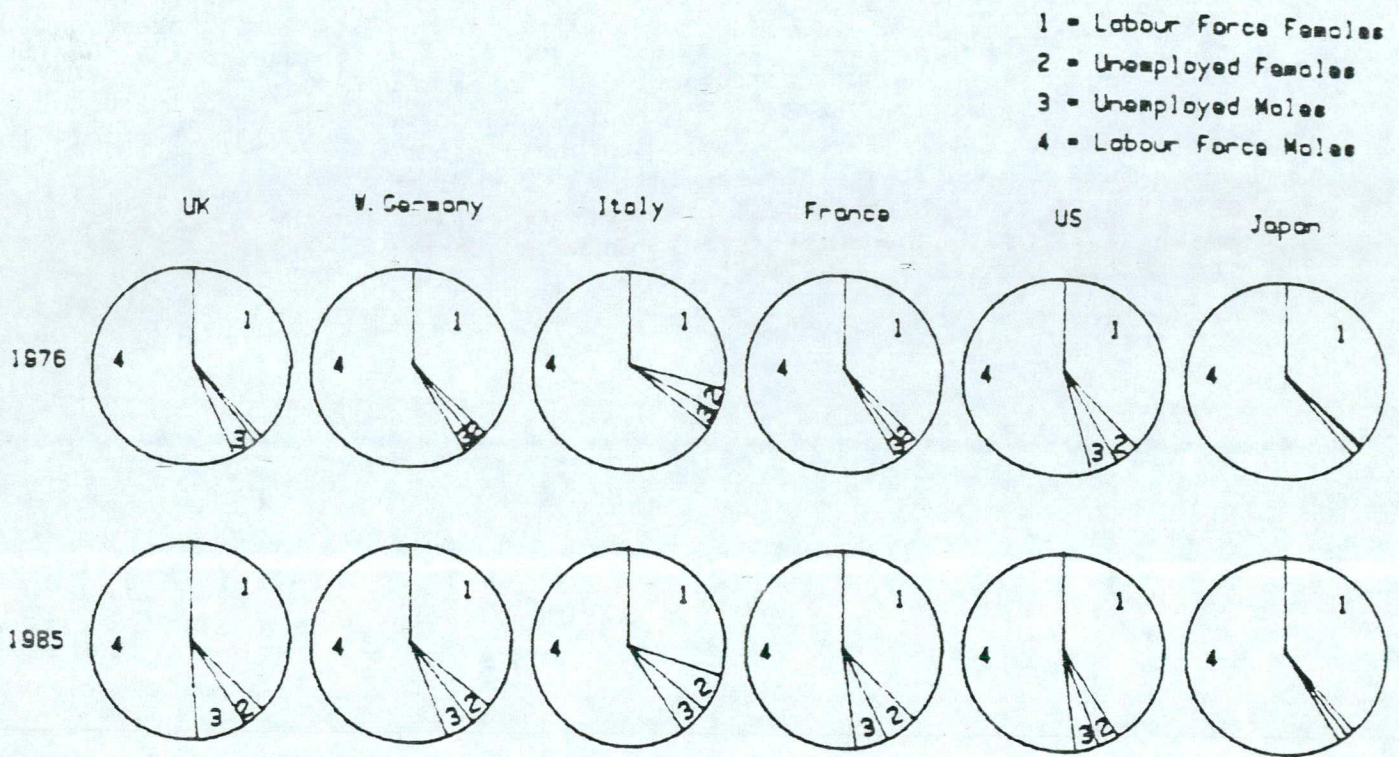
<sup>18</sup> Once again, the 10 year period masks the large changes which have taken place on a year by year basis.

FIGURE F1 Population: Age Structure



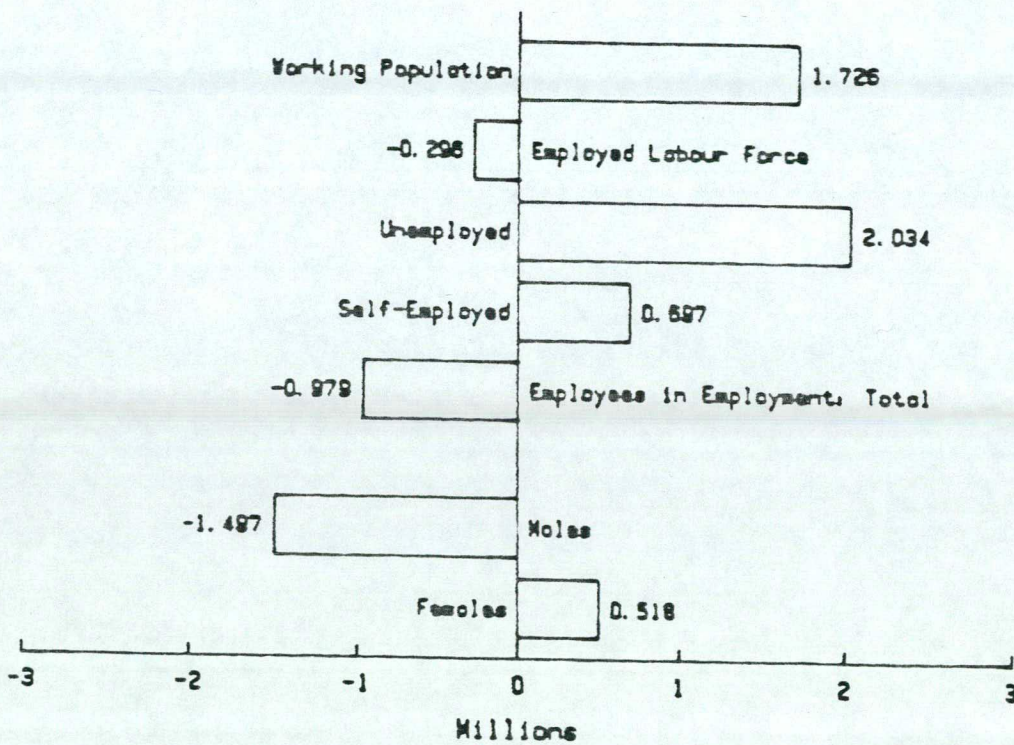
In the rest of this section, the trends in employment and unemployment are examined in more detail. Figure F4 illustrates the changes in total employment since 1976 for each country. The US has experienced relatively high growth throughout the decade with Japan and Italy expanding moderately. The UK's contraction in the early 1980s has been reversed and the level of employment has been recovering since 1983 but is still short of the peak in 1979. The dramatic fall and recent improvement in UK employment is made more evident in the inset chart which sets out the numbers employed each quarter. Since March 1983, the increase has been over 1 million.

FIGURE F2 Labour Force Composition



Source: OECD

FIGURE F3 UK Working Population: Changes 1976-1986



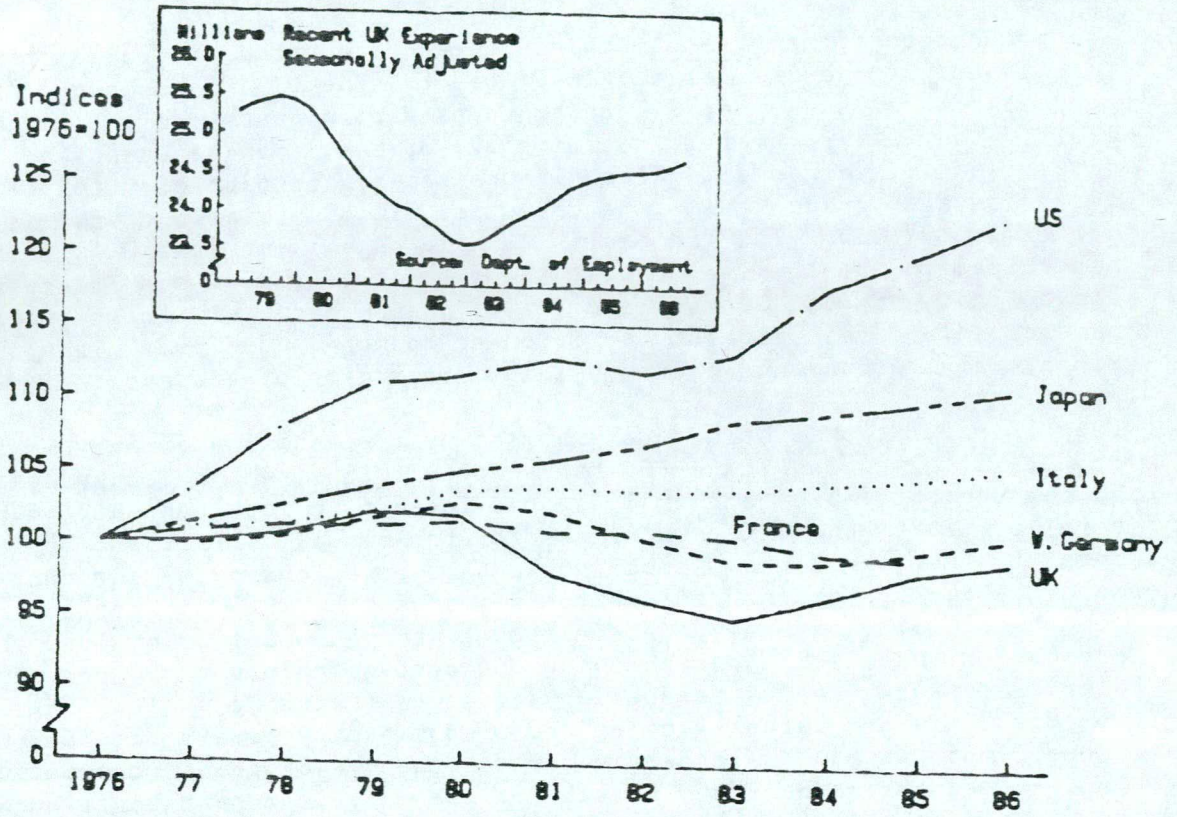
Source: Dept. of Employment



The proportion of males and females in each age group participating in the labour force is set out in Figure F5. The UK and US have larger percentages of the under 24 age group as participants. In the 55+ age group, the later average retiring age of the Japanese stands out in comparison with other countries. The UK has higher participation rates in this age group than have the other EEC countries and Italy's is particularly low. In the main 'middle' age group, the UK's female participation remains a little below that of the US and France but above that of West Germany and Italy. The UK has the highest overall participation rate amongst the European countries due to a high level of participation among women and a low proportion of students.

The UK occupational structure analysed by sex, showing changes in the 1980s, is given in Figure F6. Manual occupations, which accounted for 51 per cent of employment in 1981, had receded in importance to 46 per cent by 1985, the shift being towards non-manual. This trend applied both to men and women. Manual work was carried out by 59 per cent of men in 1981 but this had shrunk to 54 per cent by 1985. 38 per cent of women in 1981 were engaged in manual occupations, and by 1985 this proportion had also dropped four percentage points to 34 per cent. Clerical work and personal service (catering, cleaning and hairdressing) are large, growing and predominantly female occupations, though not without male participants. Other major female occupations include education/health and selling. Men are important contributors to all occupations, being predominant in processing, transport, and construction in manual occupations, and management and professional work in non-manual.

FIGURE F4 Total Employment



France 1986 not available

Source: DECD

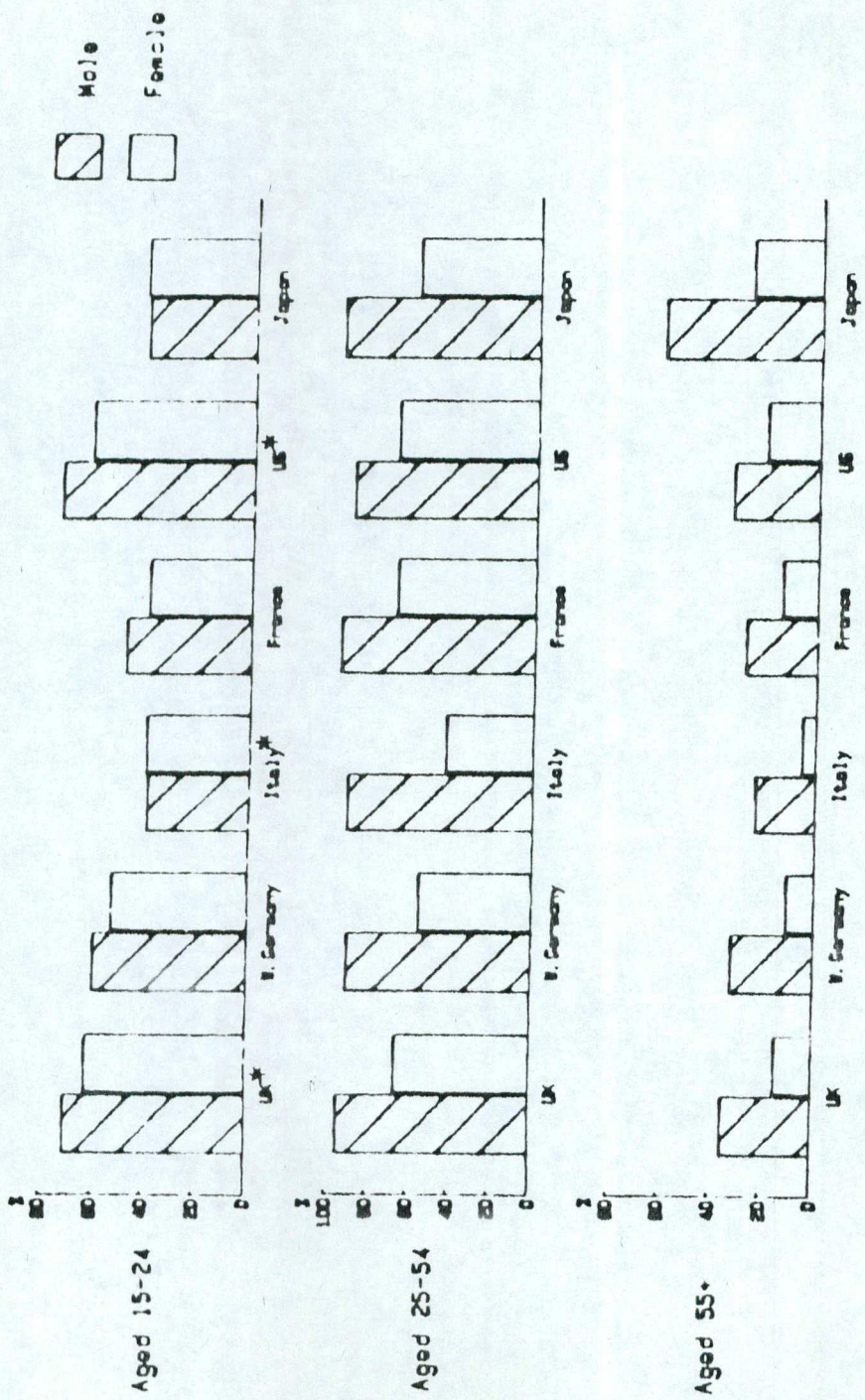
Unemployment rates across countries, standardised to a common definition based on labour force surveys, are shown in Figure F7. Rates have risen to a varying extent in each of the countries in the early 1980s. Japan's rate is low and increasing only slowly, while the UK's <sup>(is)</sup> the highest with Italy and France close behind. At the start of the period, the US had the highest rate, but the lowest at the end. The inset <sup>19</sup> chart focusses in more detail on the UK unemployment experience. It shows the rapid rise in 1980 and also that the rate of increase in unemployment slowed considerably to mid-1986 and thereafter began to reduce absolutely.

NEED  
revisiting  
this part  
in the light  
of the latest  
figures

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<sup>19</sup>The series is adjusted for changes in definition based on claimant-count.

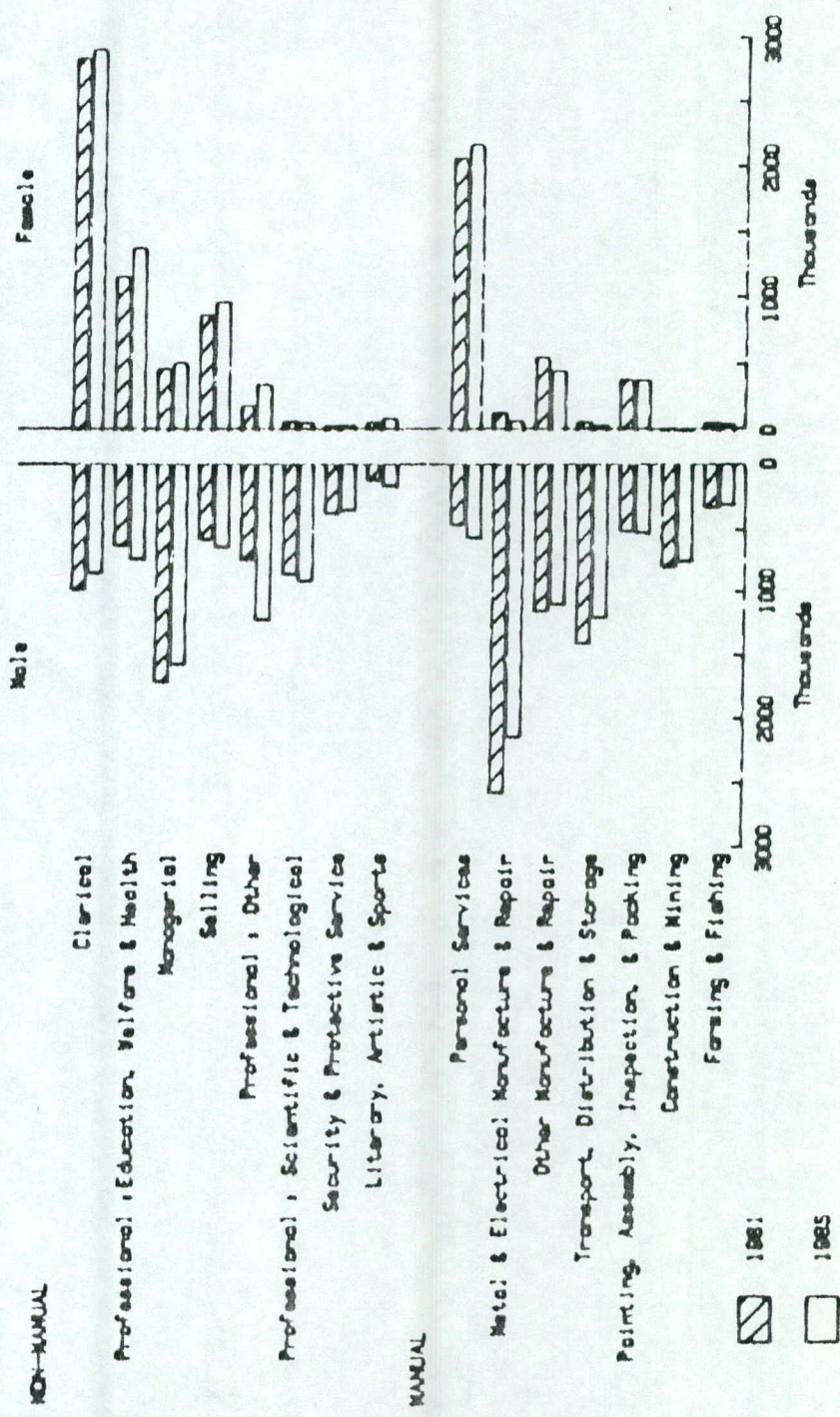
FIGURE F5 Participation Rates, 1985



\* UK and US are 16-24, Italy is 14-24

Source: OECD

FIGURE F6 Occupation Trends, UK, 1981-85

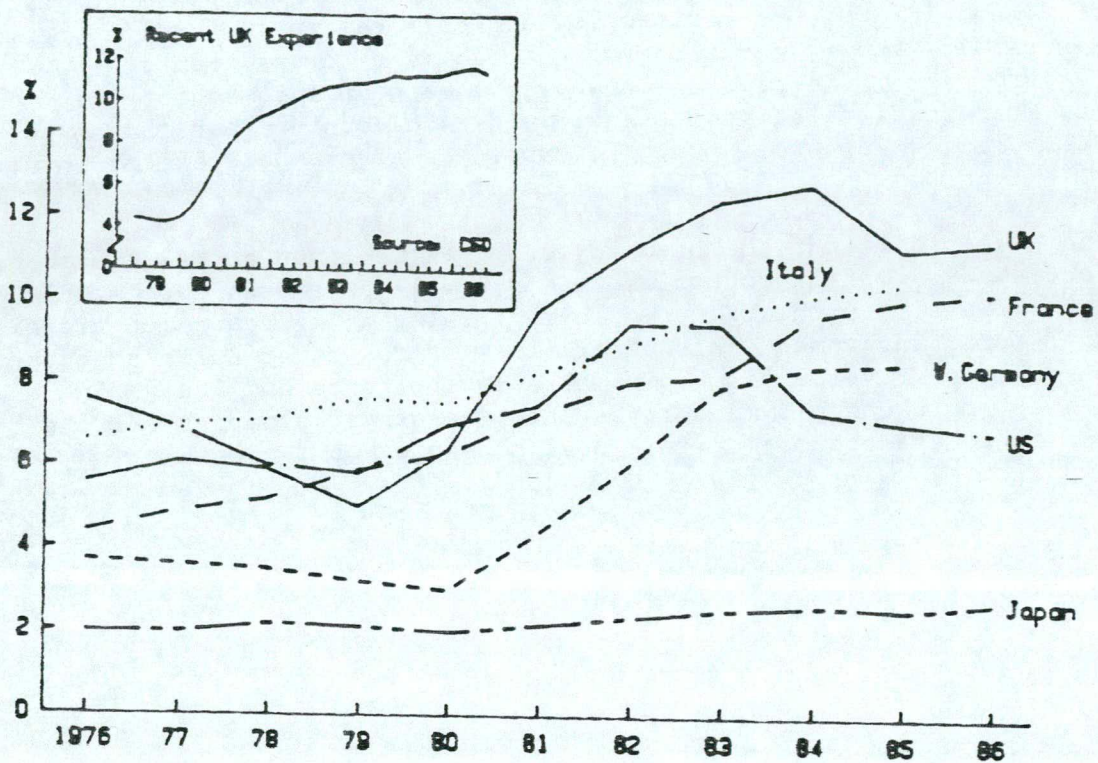


Source: Dept. of Employment

One of the characteristics of the sharp rise in unemployment has been the way in which some unemployed people remain so for long periods. Figure F8 shows duration of unemployment across countries over the recent past. The proportion who have been unemployed for 6-12 months has remained relatively stable in each country, but those who have been unemployed for 12 months or more has, everywhere except in Japan, risen sharply in the 1980s.

The age profile of the unemployed by sex is given across countries in Figure F9. In all countries, young people have been most affected by unemployment. In the UK, unemployment rates among young men are higher than for young women. This contrasts with the other European countries where the reverse is so, markedly in France and Italy. The UK has higher male unemployment rates than the other countries for the 25-34 and 55-64 age groups but this does not apply to females.

FIGURE F7 Unemployment: Percentage of Total Labour Force



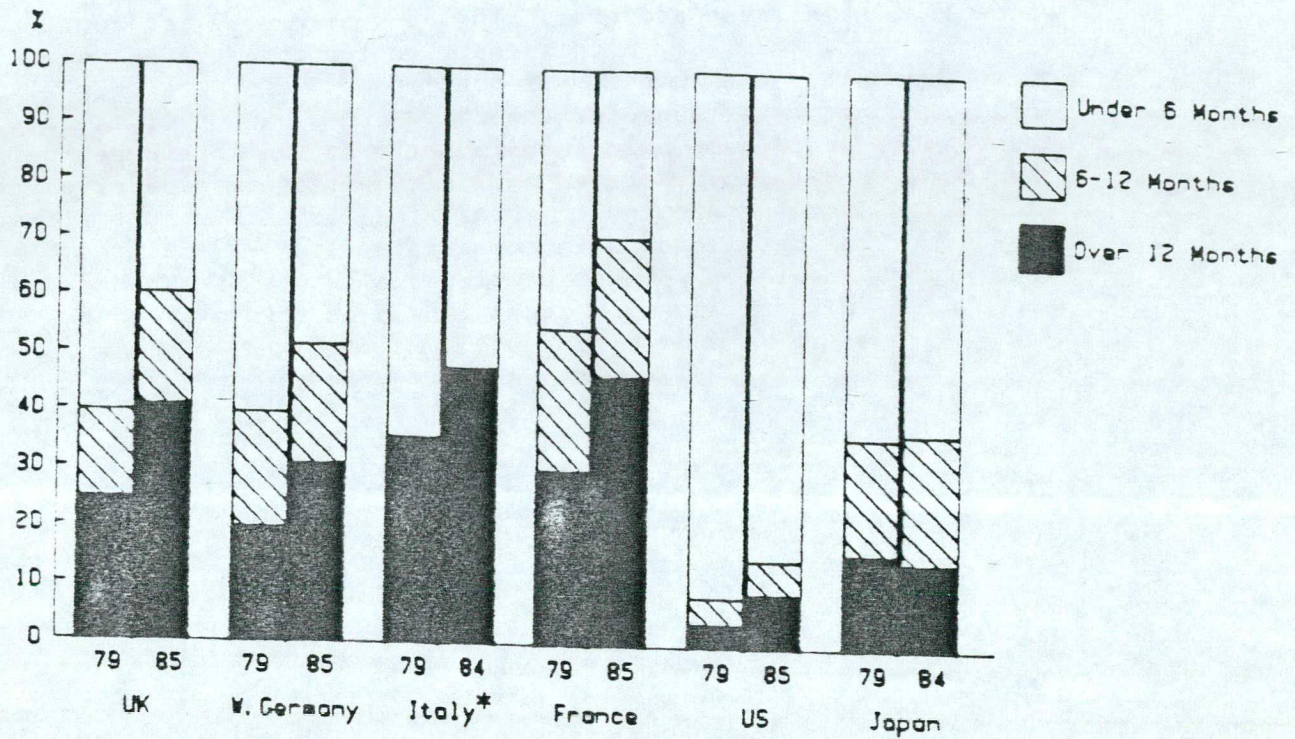
Italy and W. Germany 1985 not available

Source: OECD

Footnote will explain charts drawn up on different bases.

F10 brings together aspects of F8 and F9 for the UK to show unemployment by age and duration over a 10 year period. The rate of unemployment differs markedly by age group, with the under 25s suffering the highest proportion in 1986, nearly 19 per cent, of which five per cent have been in this position for more than a year. Even in this age group, a higher proportion of men are unemployed. The corresponding proportions for the 25-54 and 55 and over all age groups are 10 per cent unemployed (men 12 per cent, women six per cent) with the long-term element five and six per cent respectively and men exceeding women throughout among the long-term unemployed. The situation has deteriorated in comparison with 1977 but there has been some improvement for younger people as a result of a concentration of employment measures and more recently YTS on this age group.

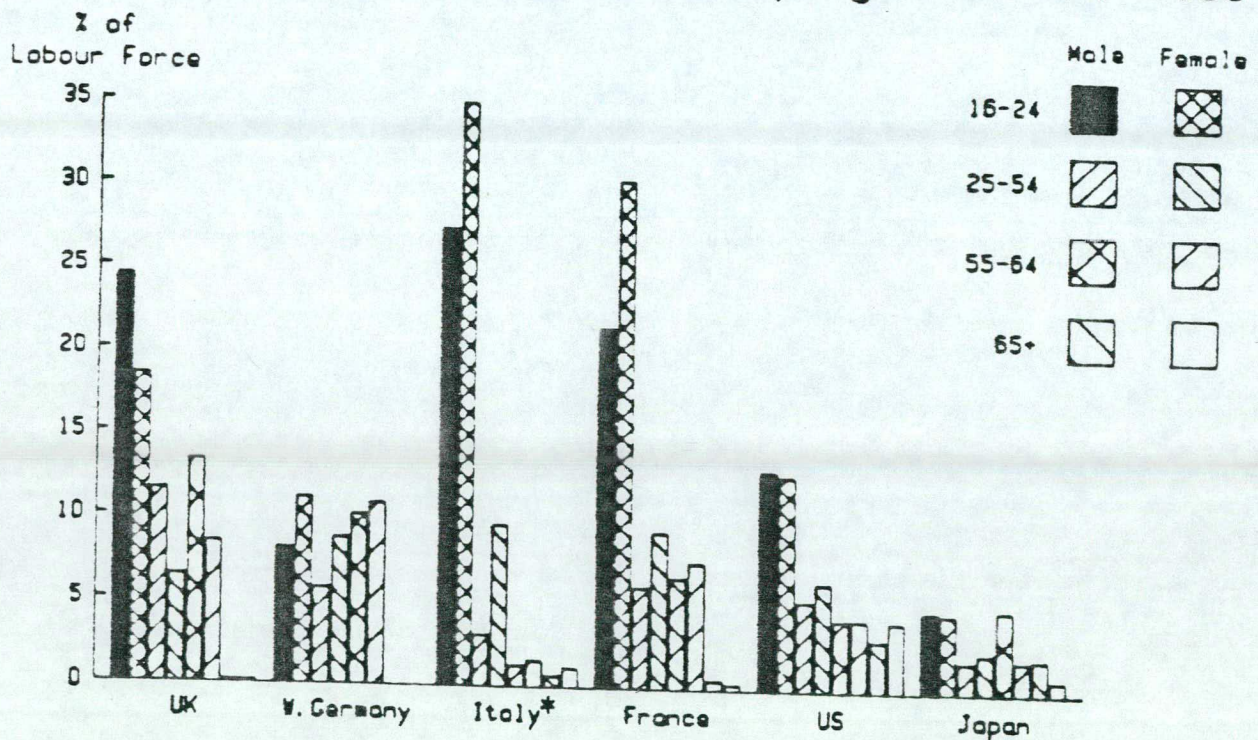
FIGURE F8 Duration of Unemployment



\* Figures available only for 12 months and over

Source: DECD

FIGURE F9 Unemployment Rates by Age and Sex, 1985



\* 1984

Source: DECD, Dept. of Employment

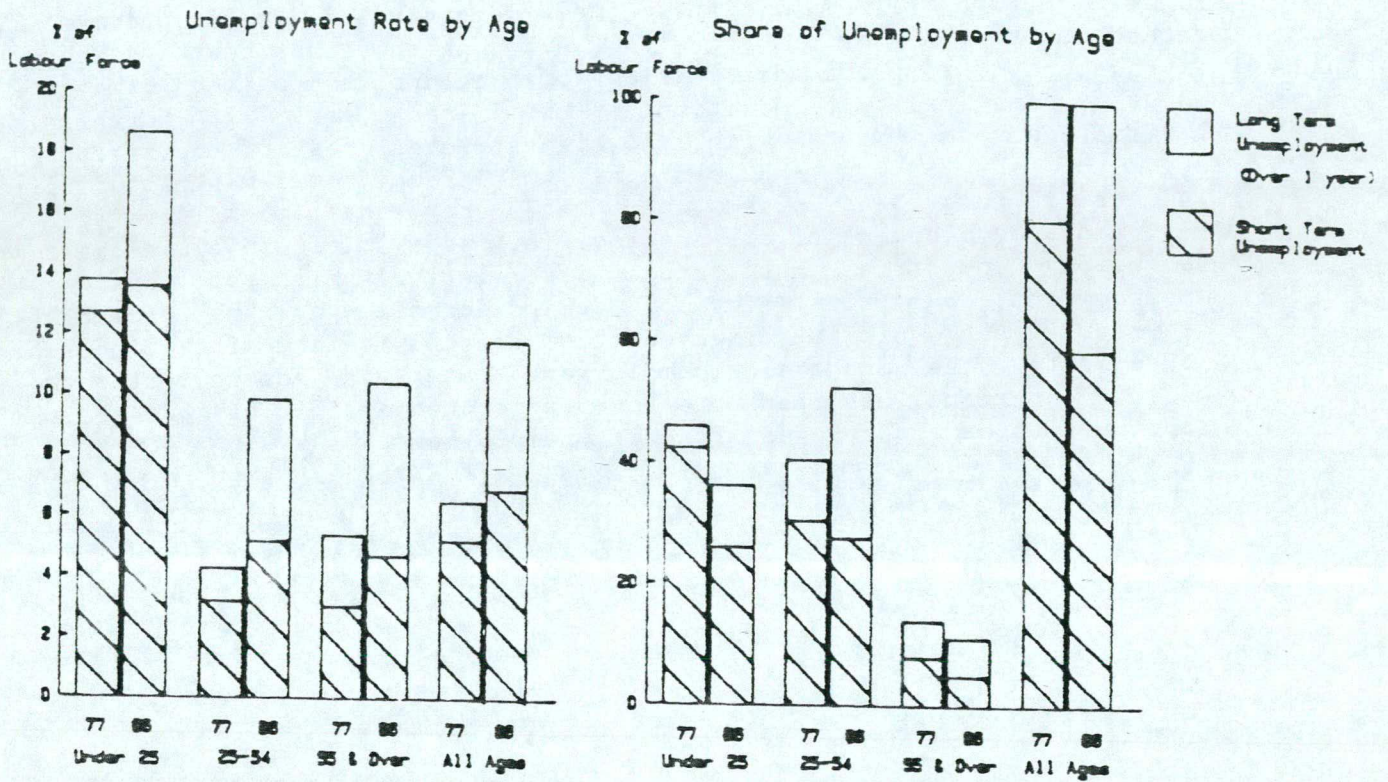


Finally Figure F11 illustrates the wide divergence in unemployment rates across UK regions in 1986. Although there has been a slight improvement during the last year in some regions, the pattern remains in the same relative position as in recent years, with Northern Ireland and the North with the highest rates. Most of the regions north of the Severn - Humber line, where traditional manufacturing industries have been based, have rates above the national average. Scotland's development of oil and ancillary activities as well as high technology industries has reduced its relatively high past level of unemployment, but slackening of demand for oil, which has recently occurred, has quickly affected the related demand for labour. Consequently the Scottish unemployment rate was edging up though recent experience has been more favourable once again. The South East continues to have the lowest rate of unemployment.

all

except Scotland & Northern Ireland

FIGURE F10 Unemployment by Age and Duration in UK, 1977 and 1986

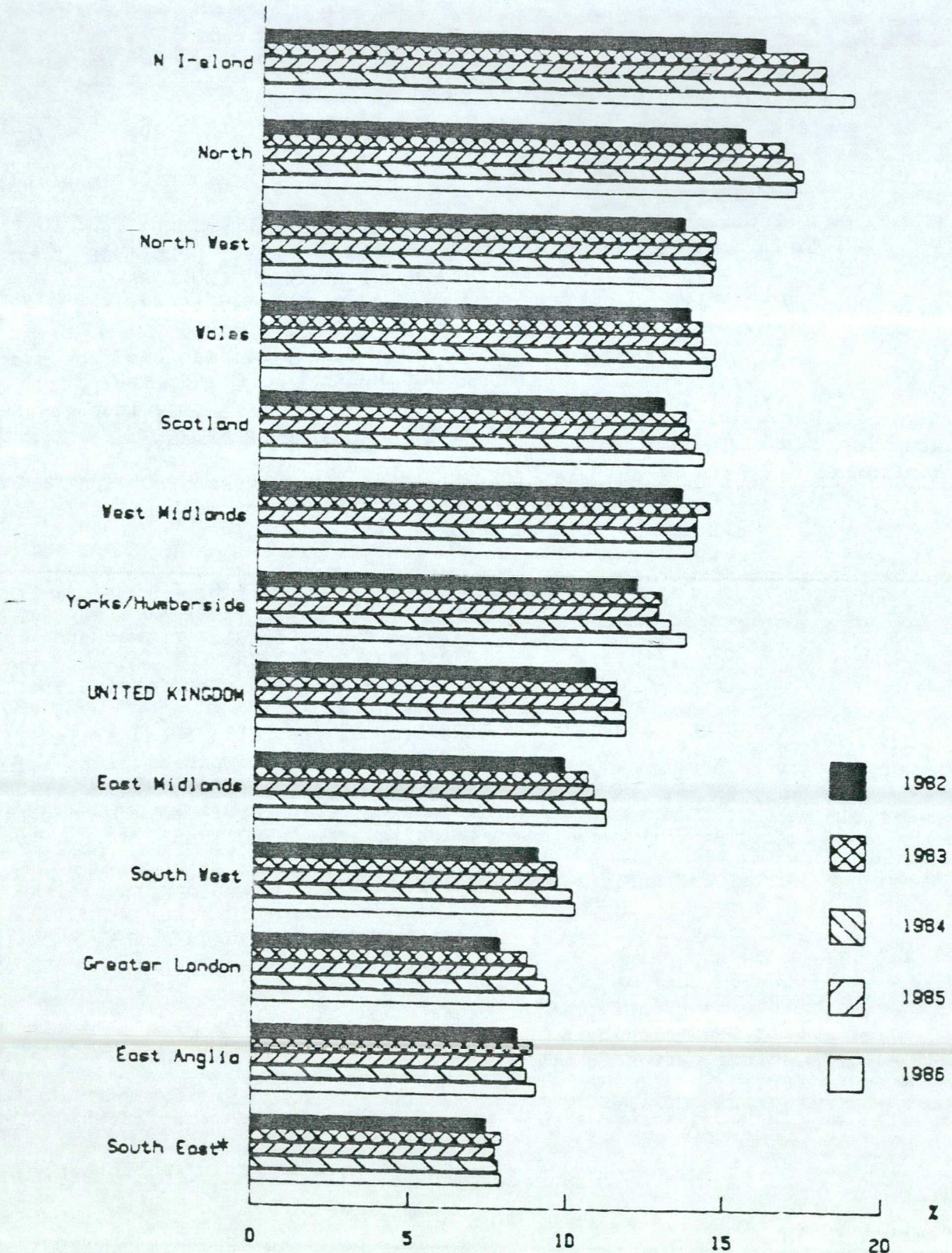


Source: Dept. of Employment

### Further Reading

Section A	CSO OECD	Economic Trends. CSO April 1982 National Accounts 1960-1985, Volume 1, OECD 1987
Section B	Building EDC Chemicals EDC  Electronics EDC  Food and Drink Manufacturing Footwear EDC Information Technology EDC Mechanical Handling EDC Process Plant EDC  Tyre Industry EDC	Construction Forecasts 1986 NEDO 1986 Chemicals - a dialogue for change '85 NEDO 1985 Electronics - report to the NEDC(85)36. NEDO. 1985 Review of the food and drink manufacturing industry NEDO 1986 The footwear industry NEDO 1985 IT futures surveyed, NEDO 1986 the opportunities NEDO 1986 Advanced handling systems - exploring the opportunities NEDO 1986 Manufacturing performance of the process plant industry NEDO 1985 The future of the UK tyre industry NEDO 1986
Section C	Printing Industries EDC Diesels EDC	Measures for Success NEDO 1985 Manufacturing Technology - The implications change, NEDO 1985
Section D	Building EDC Construction Equipment & Mobile Cranes EDC  Distributive Trades EDC  Electronics EDC  Food & Drink Manufacturing EDC	Strategy for Construction R&D. NEDO 1985 Construction equipment, the impact of new technology on manpower and training. NEDO 1985 Youth training and the distributive trades NEDO 1985 Finance for growth, a study of small and medium sized companies in the electronics sector NEDO 1986 Technology transfer in the UK food and drink industry NEDO 1985
Section E	Civil Engineering EDC  Clothing EDC Food and Drink Manufacturing EDC Heating, Ventilating Air Conditioning & Refrigeration Equipment EDC Joint Textiles Committee Process Plant EdC	Overseas construction opportunities in the agricultural sector NEDO 1986 Retail spotlight Saudia Arabia NEDO 1985 UK pig production and marketing NEDO 1986  First time exporting NEDO 1986  Lifting the barriers to trade NEDO 1986  International marketing performance NEDO 1986
Section F	NEDC NEDO/Department of Employment  OECD	New jobs programme NEDC (86)1 NEDO 1986 Changing working patterns - how companies achieve flexibility to meet new needs. NEDO 1986 Employment Outlook OECD 1985 and 1986

FIGURE F11 Regional Unemployment Rates, 1982-1986  
Per Cent of Working Population



\* Excluding Greater London

Glossary of terms and sources

OECD	Organisation for Economic Cooperation and Development
CSO	Central Statistical Office
DCE	Department of the Environment
EUROSTAT	Statistical Office of the European Communities
DE	Department of Employment
MRETS	Monthly Review of External Trade Statistics
UK OTS	United Kingdom Overseas Trade Statistics
HMT	Her Majesty's Treasury

CONFIDENTIAL

FROM: N MONCK

DATE: 19 June 1987

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton  
Mr Burgner  
Mr Culpin  
Mr P Gray  
Mr Wynn Owen

*Handwritten notes in red ink:*  
Think clear & I will write to all NEDC memos: just to L, you + Mr. Fisher, + New -  
A few changes  
NEDC memos: just to L, you + Mr. Fisher, + New -

NEDC, 1 JULY : DRAFT STATEMENT

I attach a draft of what you might say at the end of the one hour meeting of NEDC on 1 July. It has been produced by IAE and me in advance of the discussion with DTI officials which you have authorised. It takes account of some quick comments from Mr Culpin.

2. We have described the changes as Government "conclusions" rather than decisions for diplomatic reasons, but the general tone is intended to convey that the decisions are firm even if some details, such as the precise extent of the cut-back in EDCs and in the Treasury grant to NEDO, remain to be settled and will in practice involve some minimum element of negotiation.

3. The presentation tries to pre-empt some of the arguments that will be used, eg about the importance of the subjects discussed in NEDC, the goodwill etc of the members, and good work done by EDCs. It plays down the public expenditure aspect to avoid the charge of penny-pinching when national prosperity is at stake etc, etc.

4. You will see that the draft now fudges the choice between the Secretaries of State for Education and Environment as chairmen of one of the four annual meetings of the Council. There seems no need to firm that up now.

5. When the draft has been revised to reflect your comments, you will need to send it at least to No. 10 and perhaps to some of the other Ministers. In the early part of next week we will let you have draft Q & A material which could go with it.

*Handwritten note:* - we have this hand.

6. You are arranging to talk to Sir David Nickson and John Banham next week.

*Handwritten signature:* N Monck

N MONCK

P.S. I understand that the CBI will now be putting in a paper to NEDC on a "strategy towards industry", which is helpful.

MONCK  
→  
CH/EX  
19/6

*the job I am asked to do  
is a state @ the  
as well as for  
the Ministry of  
do it @ the*

DRAFT - TO BE MADE AT END OF NEDC MEETING

As I said at the outset, this first meeting after the election had to be a short one. We do not normally meet in August or September and the next meeting will therefore not be until October. <sup>[mid]</sup>

*I would prefer like to take the opportunity*

2. ~~Against this background~~, I want to let the Council know of some conclusions the Government has reached about future arrangements for the Council and the EDCs. It is ~~now over 25 years~~ <sup>more than a quarter of a century</sup> since one of my predecessors set up the Council. The time has now come to make some changes.

3. Our first conclusion is that we should now reduce the number of NEDC meetings to four a year, probably July, October, January and April. The subjects and problems the Council discusses are of course important ones. The contributions by members are ~~often~~ <sup>usually</sup> frank, thoughtful, and ~~responsible~~. But I think that few of us around this table, if we are honest, can believe that ~~the discussions make~~ <sup>our common</sup> the kind of practical contribution to improving the country's economic performance ~~which seems to have been expected in 1962.~~ <sup>interest in</sup> ~~requires us to make~~ <sup>contribute</sup>

4. I will continue to take the chair at the April meeting after the Budget and NEDC will continue to be under the aegis of the Chancellor. The Chief Secretary will probably substitute for me at the other ~~meetings~~ <sup>three</sup>. ~~A Cabinet Minister from another department, certainly including the Secretary of State for Employment and the Secretary of State for Trade and Industry, will take the chair on the other three occasions.~~ <sup>The other three meetings will be chaired by the Secretary of State for Trade and Industry, the Secretary of State for Employment, and another ~~Minister~~ <sup>Cabinet Minister</sup>.</sup>

5. The new arrangements will have a number of advantages. Four meetings should be enough to retain what is of value in the Council discussions. The ~~full~~

involvement of <sup>Other</sup> Cabinet Ministers, ~~including those who will now be~~ <sup>2)</sup> taking the chair, will be appropriate to the shift of emphasis away from macro-economic policy to supply side issues. The Council will continue to address its major areas of interest: the economy, industry, employment, training and education.

6. I have always ~~thought~~ <sup>believed</sup> that ~~a greater practical~~ <sup>NEDC's main objective</sup> contribution can be made at sectoral level, as the work of some EDCs and other similar activities have shown. But the record is patchy and the present pattern has become too rigid. ~~Parties~~ <sup>All</sup> around the table have recognised this, but progress to bring necessary improvements has been slow.

7. It is not good value for money to continue EDCs and similar activities on anything like their present scale. Over the next few weeks ~~we~~ <sup>!</sup> shall indicate which EDCs we consider ~~produce sufficient benefits for economic performance to~~ <sup>are doing a sufficiently worthwhile job</sup> justify continued public funding after the end of the current financial year. These EDCs will continue to report on their work to the Council.

8. ~~[We would expect to reduce the public funding available for EDCs by about/at least 50 per cent].~~ <sup>I would expect this to lead to a significant reduction in the number of publicly-funded EDCs.</sup> ~~In some cases this may mean EDCs will come to end earlier than previously planned.~~ <sup>will</sup> But this should not happen where genuinely useful work is being done. If, in some cases, one or more of the other parties wishes to take over <sup>the</sup> ~~financing~~ <sup>of</sup> ~~or part of the activities done in~~ <sup>an</sup> EDC, they are, of course, free to do so.

9. I thought it right to explain <sup>at the outset</sup> the conclusions the Government has reached on its contribution to NEDC during the period of the new Parliament. I hope that the CBI and TUC will help to make these new arrangements effective. I understand that a meeting of Group of Four has been arranged later this month and I hope the practical implications of the changes I have outlined will be discussed then.



DRAFT - OPENING REMARKS AT START OF MEETING

This first meeting after the election had to be a short one. The date was fixed long before we knew when the election would be, and as it has turned out [3] NEDC Ministers we go down 1 hour for the day have to prepare ~~for~~ major speeches today and tomorrow in the Debates on the Address. Unfortunately, it was not possible at short notice to find an alternative date suitable for all Council members between now and the holidays.

*check*

*Still not possible to confirm*

*CONFIDENTIAL*

NEDC, 1 JULY ANNOUNCEMENT - DEFENSIVE BRIEFING

RD

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DEFENSIVE

## (A) - MOTIVES

1. Why no prior consultation to this announcement?

NEDC was set up and has remained a body wholly funded by Government. Government must be able to make key decisions about its size and scope, as it thinks necessary. Decided, in this instance, that ~~rapid~~ move to new procedures was necessary following Election. *best announced with date, since no further notice until Oct in any case.*

2. Did you consult CBI, NICG or others?

No. [IF PRESSED - No consultation, though we did inform CBI - in answer to a question - of the conclusions in outline shortly before. Mr Cassels ~~and NICG members~~ also forewarned.]

3. Why not simply abolish NEDC?

Council meetings ~~are sometimes useful.~~ *serve a useful purpose. But* Four meetings ~~should be~~ enough to ~~retain~~ *save* what is of value in the Council discussions. Hope that the CBI and TUC will help to make these new arrangements effective. *Plan Purpose.*

4. Is this the first stage in a rundown to abolition?

~~Not if these new arrangements are effective. Hope CBI and TUC will help to make them so.~~ *No: it is a steady streamling.*

5. Calculated to force TUC to withdraw?

No. Hope TUC, CBI and others will <sup>work</sup> help to make new arrangements effective.

6. What does this mean for the MSC?

Any proposals that may arise on the MSC front are unrelated to what I have explained today, which is felt to be best way of gearing the NEDC/NEDO structure to today's needs.

7. Is this part of a general rundown of tripartite bodies? [as Banham suggested to CBI Council]

No. *Each case looked at on its merits?* ~~NEDC looked at on its merits [same as manifesto proposals on MSC].~~

8. How firm are these "conclusions"?

The Government has reached and announced clear decisions. Group of Four [G4 - Mr Cassels, Mr Banham, Mr Willis and Sir P Middleton] later this month can discuss practical implications of the changes I have outlined.

9. Can TUC/CBI come to discuss these proposals with Chancellor?

See no point in protracted discussions about substance of these changes. But understand a meeting of G4 has been arranged later this month and the practical implications of the changes I have outlined can be discussed then.

10. NEDC discusses subjects crucial to the economy. Why decimate discussions in this way?

Subjects and problems we discuss are of course important. But few of us, if we are honest, can believe that our common interest in improving the country's economic performance requires us to meet virtually every month. ~~Four meetings should be enough to retain what is of value in the Council discussions.~~ *A quarter*  
~~with full share no purpose of most.~~

11. Goodwill generated in NEDC is priceless. Why sour it?

Hope goodwill will continue and that CBI, TUC and others will help to make these new arrangements effective.

12. Deliberate attempt to shift away from macro issues?

Council already ~~devotes~~ *- night -* most of its discussions to micro issues. The involvement of other Cabinet Ministers in taking the chair will be ~~appropriate~~ *useful as we continue* to the shift of emphasis away from macro-economic policy to supply side issues. I would still propose to discuss ~~my Budget~~ *macro issues follow* at the April meeting each year, if the parties so wished. Council's other three meetings will focus on the work of the EDCs and other micro-economic issues.

13. This is done simply because NEDC is an embarrassment to you?

No. ~~But all of us have important contributions to make to the economy outside this Council and many are extremely busy.~~ *It is a question of chairmanship.*

14. These changes motivated by your personal dislike of chairmanship?

No. My attendance record, during four years as Chairman, ~~has been good.~~ *( - and 18 months as a member before that - )* But the involvement of other Cabinet Ministers in taking the chair will be ~~appropriate~~ *useful* to the ~~shift~~ *continue* of emphasis in Council discussions from macro policy to supply side issues.

(B) - COUNCIL ARRANGEMENTS

1. Simple recognition of poor Ministerial attendance?

No party can claim to have maintained full attendance for all meetings. We all can think of instances when one or other party's attendance has been very thin. Despite considerable pressures, we have almost always managed to field the relevant Minister for each of the issues and will continue to do so.

2. Will level of Government representation fall further?

In some cases there will be Ministerial substitution, as there is currently. Have already indicated the Chief Secretary ~~will probably~~ <sup>may well</sup> substitute for me at the three non-Budget meetings. Will be for other departments to decide on their level of representation, taking into account issues to be discussed, ~~other diary commitments etc.~~

3. Is the make-up of Council membership to be changed and, if so, will you consult first?

No change is being made in the balance of representation on NEDC.

4. What happens to regular Autumn Statement discussion?

For Steering Group on Council Programmes to consider whether Autumn Statement raises issues for proposed January meeting or not.

5. Will you be willing to see CBI and/or TUC separately?

Yes, as now, on specific matters - eg Budget representations each year.

6. What is basis for months chosen?

Each three months apart and each a month in which Council meetings is already held. Should therefore present fewest diary problems. Also fits best with likely Parliamentary timetables, conferences etc.

7. Will quarterly meetings be all day/have longer agendas?

Would not foresee changing normal practice of half-day meetings with three item agendas. Practical ramifications of this can be discussed by G4.

CONFIDENTIAL

(C) - EDCs

X 1. How <sup>will</sup> did you decide on EDCs in your list?

X Following consultations with other Government Departments which sponsor EDCs  
X we will be ~~bringing~~ <sup>putting</sup> forward a list of those EDCs we consider are doing a  
X ~~sufficiently worthwhile job, on the basis of recent experience,~~ <sup>which would</sup> to justify  
continued public funding after the end of the current financial year. [see No 6 below for more  
detail].

2. When will you produce the list?

As soon as possible, consistent with appropriate liaison between Government departments. Hopefully by end of this week.

3. How big will the substantial reduction be?

? <sup>Need to</sup> Will consider each EDC on its merits. But would be surprised if <sup>as many as</sup> [more than] half  
of present committees etc justify continued public funding.

4. Why not delay it until you have other parties' views on each EDC?

Unfair to all concerned to delay list.

5. Will you accept representations?

X We will be ~~bringing~~ <sup>putting</sup> forward a list of those EDCs and the like which we think  
X merit further public funding from 1 April 1988. For each of the other EDCs,  
not on the list, HMG will need ~~a great deal of~~ persuading that continued public  
funding should be made available from 1 April 1988.

X 6. How <sup>exactly</sup> will the surviving EDCs be chosen?

- shall select those that justify continued public funding and provide good ~~VFM.~~ <sup>sufficient economic benefits.</sup>
- shall take account of each EDC's past track-record and recent performance and base our selection on whether there remains real, solid work for the EDC to do to benefit the sector in question.
- All EDCs have doubtless done some work of use to some parties - some more than others - but that does not mean they all justify continued public support. Shall fund EDCs where they have a real contribution to make. Do not believe every sector needs an EDC. New approach will be more flexible and pragmatic.

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- If other parties wish to see an EDC continue, they are welcome to provide the financial and secretariat support for it.

7. What merits do you see in EDCs?

In some cases, can be helpful to discuss particular sectoral problems on tripartite basis. But does not apply to all sectors, nor to a particular sector for all time.

8. Where have EDCs failed?

None has been a total failure, but in a number of cases the result produced has not justified the substantial time and resources put in by all concerned. Some EDCs have duplicated work going on elsewhere; in some, the tripartite discussion has not added anything; some have strayed into general rather than sectoral issues and some have just come to the end of their useful lives.

9. What happens to EDCs not on your list?

All existing EDCs will be funded up to the end of current FY, though those that come to the end of their 2 or 3 year life cycles before then may cease at that point. Nine months remaining in current FY should allow more than adequate time in which to complete the great majority of current, worthwhile projects.

[BACKGROUND - Each EDC is subject to review or reconstitution after 2 or 3 years of its life under existing procedures. 7 are already under review; a further 21 of the other 29 <sup>would have been due for review</sup> ~~will be reviewed~~ under those procedures by the end of the present FY.]

10. For what period will the "continuing" EDCs be supported?

For up to 2 year life cycles. We shall review all those EDCs on the list to be published at any time up to two years from their last reconstitution date; or, for those few already undergoing reconstitution, up to two years from their next reconstitution date. Whether each EDC continues to receive public funding beyond 2 year period will depend crucially on whether it <sup>provides sufficient economic benefits.</sup> ~~remains good VFM~~. All sectoral work will be subject to continuous review, under new, more flexible arrangements. While noting others' views, HMG will ultimately take decisions concerning whether to continue with public funding or not.

11. What scope will there be for new EDCs?

The list will not be fixed for all time. But would not propose to complicate process of adjustment by allowing any new committees to start up over the next

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nine months. Once NEDO running smoothly on a revised basis, if there is a good case for a new EDC we shall consider it. Equally, some EDCs on the list may reach end of their useful lives. Would not expect the total number of EDCs and the like funded by HMG to rise above that in the list. But other parties welcome to provide secretarial and financial support if they feel a particular activity is worth preserving or establishing.

12. Will EDCs meet so frequently?

Not necessarily. Aiming for a flexible approach in order to get good VFM for each EDC. In some cases EDCs may continue to meet as frequently as now. But in others it may be more appropriate to meet only as occasion demands.

13. (After the list is published) Why was a particular EDC not on the list?

Although it has done some useful work, HMG did not feel continuing public funding was, on balance, justified.

14. What about EDC reports to Council?

Those EDCs which are to continue to receive public funds into 1987/88 will continue to report on their work to the Council, according to Steering Group decisions. *Am sure Council will wish to continue to give a high priority to this task.*

15. What about Task Forces?

Shall deal with these as if they were EDCs.

16. What about NEDO Working Parties and other NEDO involvement in HMG work?

We shall decide about these as soon as possible, as for EDCs.



(D) - NEDO AND ITS STAFF

1. What future for Mr Cassels (sitting on your right)?

My announcement does not remove the continuing need for a Director General to lead the Office. I hope John Cassels will continue to fulfill this role.

2. What future for NEDO staff?

Depends partly on any interest by other parties in stepping in to employ relevant staff and finance anything they particularly wish to see continued. Obviously proper procedures will be followed if some early retirements/redundancies are the end result. My staff will be considering this in detail with the management of the Office during the coming weeks.

3. Isn't this a terrible way to announce redundancies to NEDO staff?

Felt it only right that Council should be informed first of our conclusions. Change will be implemented over a period of time. We will fund all EDCs to end of current financial year, which is another nine months. Thereafter, public funds will only support those EDCs we think justify continued public funding.

4. How many redundancies will result from this?

Too early to say. But I expect this to lead to a ~~substantial~~ <sup>significant</sup> reduction in the number of public-funded EDCs. ~~But~~ <sup>However,</sup> if one or more of the other parties wishes to take over the financing of all or part of the activities done in an EDC, they are, of course, free to do so. Proper redundancy arrangements will be followed.

(E) - PUBLIC EXPENDITURE

1. Aren't you motivated by penny-pinching public expenditure savings?

No: simply making what I see as long overdue and necessary changes in Council and EDC structure. It is not good VFM to continue EDCs and similar activities on anything like their present scale.

2. What public expenditure savings will there be?

Too early to say. Will be worked out as a result of changes I've just announced and in light of list of EDCs which will receive continued public funding beyond current FY.

FROM: T U BURGNER

DATE: 3 July 1987

Content for Sir P to write as below

CHANCELLOR

cc. Sir P Middleton  
Mr Monck  
Mr Gray  
Mr Culpin  
Mr Wynn Owen

*Handwritten notes:*  
Broadly correct. I have made an attempt to add in addition to content in letter. Initials & signature not done but will return to BMIB tomorrow. Please see CR 3/2 SW

*Handwritten notes:*  
ps. I will have a meeting with the other 3 for the purpose of returning the letter to the other 3 for their comments. 18 June

NEDC - FUTURE OF EDCs

All departments with lead responsibility for individual EDCs have now responded to your letter of 1 July with their views about those EDCs, task forces etc which they consider are worth funding beyond the end of the current financial year. Mr Monck held a meeting with officials from a number of the departments concerned this afternoon. The results are embodied in the attached draft letter which, subject to some remaining points of uncertainty, it is proposed Sir Peter Middleton should send to the other G4 members on Monday.

2. Of the total of 37 EDCs and task forces at present, departments are clear that they wish to retain 14. Two more (Construction and Agriculture) may be added on Monday - see below. The severest cuts are by DTI who only wish to retain 10 of a current 29 bodies. The overall survival rate is therefore around 40% - just below if Agriculture and Construction are excluded, just above if included. The size of the cut, (although consistent with our briefing "would be surprised if more than half of present committees justify continued public funding") will come as a shock to many in NEDO and elsewhere, once the list is known. You may think it worth warning No.10 on Monday.

3. The position of the Agriculture and Construction EDCs is at present uncertain. Officials in the 2 departments will be consulting their Ministers in the light of what they now know about the composition of the list as a whole. If the Agriculture EDC survives,

*Handwritten note:*  
The letter has not been sent, of course, to me & I will have a meeting with the other 3 for the purpose of returning the letter to the other 3 for their comments. 18 June

CONFIDENTIAL

it could be on the basis of a much smaller ad hoc group with fewer meetings geared to particular issues. In the case of Construction, Mr Ridley's instincts are abolitionist; but he may judge it worth having one EDC for Construction (replacing 3 in this sector at present and absorbing relevant parts of the Heating and Ventilating EDC on which DTI currently leads) for political and presentational reasons. You may want to have a word with one or both Ministers once we know their decisions on Monday.

4. There are possibly some other working groups in the system e.g. maker/user panels, whose future has not yet been clarified. The process of consultation will no doubt flush these out - but the presumption will clearly be that if an EDC is abolished all its ancillary activities goes with it. The process of consultation will no doubt put the Government under pressure to reinstate particular EDCs or task forces - but you should note that DTI say they are not at present holding back a short list of possible concessions to offer.

5. The attached letter has been revised in the light of this afternoon's discussion. Sir Peter Middleton saw an earlier version and thought it was on the right lines. It also takes account of the letter that Mr Cassels sent you today. Once we are clear about whether Agriculture and Construction are on or off the list, the letter should issue as soon as possible. It will no doubt become widely known. It will be up to departments to defend the position of particular EDCs. DTI will be early in the firing line with first order Questions on Wednesday, although they should try to avoid answering questions on individual EDCs.

6. The timetable for consultation allows the main parties to consult their constituents and the incidence of holidays. We have asked for all comments by 4 September. This is immediately before the TUC Conference in the second week of the month. Relations with Government in NEDC and MSC is bound to be an issue there. It may well be convenient not to have finalised the proposals until after the Conference - that can be considered nearer the time.

TR

T U BURGNER

UNCLASSIFIED

DRAFT LETTER FOR SIR PETER MIDDLETON'S SIGNATURE:

J S Cassels Esq CB  
Director General  
National Economic Development Office  
Millbank Tower  
Millbank  
LONDON SW1P 4QX

**ECONOMIC DEVELOPMENT COMMITTEES**

Following the Chancellor's statement to the Council on 1 July, and your letter to him of 3 July, I am writing to provide you and other G4 colleagues with the list of those EDCs and Task Forces which the Government considers would justify continued public funding after the end of the current financial year. This has been prepared following consultation with relevant departmental Ministers and officials.

2. The list is as follows:

[Agriculture EDC]  
Clothing EDC  
Cotton and Allied Textiles EDC  
Food and Drink Manufacturing EDC  
Knitting EDC  
Leisure Industries EDC  
Electronic Capital Equipment EDC  
Electronic Components EDC  
Electronics Industry EDC  
Food, Drink and Packaging Machinery EDC  
Pharmaceuticals EDC  
Plastics Processing EDC  
Specialised Organics EDC  
[Construction EDC combining elements of the previous Building EDC, Civil Engineering EDC, and Heating, Ventilating, Air Conditioning and Refrigeration EDC]  
  
Innovation Task Force  
Committee on Industry and Finance

For some at least of these there would be reductions in the scale of activity, and in all cases their work should relate to individually specified remits, timescales and working arrangements.

3. For the remaining EDCs and their sub-groups and related activities the Government takes the view that continued public funding after 31 March 1988 is no longer justified. Nine months should allow adequate time to complete the more important work in hand. Alternatively, in any of these cases it is of course open to other parties to take over the organisation and financing of all or part of existing activities if they consider them to be worthwhile.

4. The Chancellor indicated to the Council that, before reaching decisions on the list, the Government would take into account comments from other parties, ~~though it would not be easily persuaded to change its view.~~ Comments on the list from the other parties are invited as soon as possible and in any event by Friday 4 September 1987. The Government will then announce its final decisions in order to allow time to settle the consequential level of grant-in-aid to NEDO for 1988-89, and provide a six month period for the necessary adjustments to be made in the Office.

5. I should of course be interested to hear any initial views on the list at our G4 meeting on 13 July.

6. As explained above, funding for the existing pattern of EDC activity will continue for the rest of this financial year. But I am asking IAE Group in the Treasury to start exploring now with the Office the resource implications for 1988-89 onwards of the move to quarterly meetings of the Council and EDC activity on the scale set out above.

7. I am sending copies of this letter to John Banham and Norman Willis, and to Permanent Secretary colleagues with a departmental interest in the EDCs.

I have stressed to Peter Dixon that Cassels must make it clear that NEDO's views are part of the ongoing process of consultation and that the Govt. will take its decisions after it has considered the representations of all the parties.

FROM: P WYNN OWEN  
DATE: 2 September 1987

- 1. MR BURGNER
- 2. CHANCELLOR

cc PS/Sir P Middleton  
Mr Monck o.r.  
Mr Culpin  
Mr Gray o.r.  
Mr Pickford

Press line OK. TB  
(I am innocently opposed 2/9  
to X, but am prepared to support a small  
no. of EDCs on merits)

NEDO PRESS BRIEFING

I was informed today by Liza McKinney, NEDO's press officer, that John Cassels will be giving a press briefing at 12.30 tomorrow, Thursday 3 September, to inform national and trade press of his response to Sir Peter Middleton's letter of 7 July on EDCs.

- which includes justified considerations.

MR CASSELS' CASE

2. Mr Cassels reply to Sir Peter Middleton is expected late today or tomorrow morning. Mr Cassels main concern is that there should be a more adequate system for reviewing elements of the NEDC structure in the future so as to avoid a situation in which NEDO is in the dark (as he sees it) about the dissatisfaction felt by one or more of the NEDC parties. His letter is likely to make some suggestions - eg for a beefed up G4 or even a Council sub-committee chaired by an NEDC Minister. In addition the letter proposes a number of detailed changes to the Government's list of surviving EDCs; this produces a net addition to the list although NEDO describe this as "not extravagant". In so doing, it seeks to present what it feels is a more balanced portfolio of NEDO activities than that in the original Government list, while arguing for more flexible and effective arrangements.

X

3. We have sought confirmation that Mr Cassels will make it clear that these are simply his representations to Government, and that it will be for Ministers to take decisions. NEDO say this is not a lobbying exercise, but simply an attempt to lay out their case factually for the press, so as to avoid leaks and/or misunderstandings. Mr Cassels submission is entirely the work of the Office. It has not been agreed or discussed with Treasury or DTI officials. The only discussions we have had on such matters with NEDO since Sir Peter's letter of 7 July have been to attempt to cost all the relevant activities currently going on within NEDO, so that a suitable level of grant-in-aid can be agreed for next year once final decisions had been taken.

X

4. If asked about redundancy, Mr Cassels may say that he foresees a cut of at least 40 per cent in NEDO activity. Again, this figure has not been agreed with Government officials. It will be for Ministers to decide on the appropriate level of activity once all the responses to Sir Peter Middleton's letter of 7 July have been thoroughly assessed by relevant departments. Mr Cassels may

Wynn Owen  
CWP/EX  
2/9/87

say he hopes most redundancies can be managed on a voluntary basis, but that he cannot rule out the need for some compulsory redundancies. More generally, Mr Cassels intends to avoid being drawn into resource questions, which NEDO recognises are a matter for bilateral discussion with the Treasury.

5. A member of IDT will attend to monitor the press conference.

#### OTHER REPRESENTATIONS

6. There has been a steady trickle of letters during the summer, both supporting or querying decisions on specific EDCs. In addition we expect the CBI and TUC to send full replies to Sir Peter by this Friday's deadline for comments. The CBI will not court publicity, but may put out a brief press statement, which they have agreed to copy to us, if press enquiries merit one. The CBI do not plan to release their full reply, but the TUC may well release theirs.

#### TIMING

7. Seeking the views of other departmental Ministers and officials on all representations could take a couple of weeks, but we hope Sir Peter Middleton will be in a position at least to indicate our initial conclusions when he attends the Group of Four meeting on 22nd September. In the light of that meeting, you have agreed with Sir Peter (Mr Saunders minute of 14 July) that final proposals would then be put to the October 14 NEDC as the Government's conclusions, on which it was open to others to comment. But it would not be sensible to make this timetable public before we have seen all representations or consulted departments.

#### LINE TO TAKE

8. In these circumstances, it would not be appropriate for any press queries flowing from Mr Cassels' press conference to receive a detailed reply. We suggest IDT draws on the following:

"Mr Cassels response to Sir Peter Middleton has just been received. It forms part of the consultation process on the appropriate level of Economic Development Committee and similar activity within the National Economic Development Office for the next financial year. Along with any other representations received (eg from the CBI and TUC) by the 4 September deadline for comments, Mr Cassels' views will be carefully considered by Ministers and officials in the relevant Government departments, before final decisions are taken on the level of sectoral activity within the National Economic Development Office which the Government is prepared to support after the end of the current financial year."

*Philip Wynne Owen*



Re chase PWO.



BIF with 6  
advice on 11/19  
**Manpower  
Services  
Commission** BIF 1819

24 September 1987

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1P 3AG

236 Gray's Inn Road  
London  
WC1X 8HL  
Telephone: 01-837 2795

Chairman: Sir Bryan Nicholson

CH/EXCHEQUER	
REC.	10 SEP 1987
ACTION	Mr. Wynan Owen
COPIES TO	Sir P Middleton
	FER Butler
	Mr Monck
	Mr Bunker
	Mr P Gray

Dear Nigel,

As you know, I shall be leaving the MSC on 21 October, and taking over as Chairman of the Post Office the next day.

My present term of appointment to NEDC runs to November 1988. I am assuming that you would like my seat on NEDC to be taken by my successor at the MSC. Indeed, given the close working relationships between NEDC and the MSC on a number of issues, this would clearly seem appropriate.

My successor has not yet been identified. Could I suggest that I continue to remain a member until such time as the appointment has been made and then resign - assuming always that that is what you wish.

Yours sincerely,  
Bryan

20



FROM: CATHY RYDING  
DATE: 9 September 1987

CR  
To  
WYNN  
OWEN  
9/9

MR WYNN OWEN

cc PS/Sir P Middleton  
Mr Monck  
Mr Burgner  
Mr Culpin  
Mr Gray

**ECONOMIC DEVELOPMENT COMMITTEES ETC**

The Chancellor was grateful for your minute of 8 September, the contents of which he has noted.

A handwritten signature in cursive script, appearing to be "CR".

CATHY RYDING

RESTRICTED

From: P WYNN OWEN  
Date: 14 September 1987

APS/CHANCELLOR -12/2

Meeting folder for tomorrow

cc PS/Sir P Middleton  
Mr Monck  
Mr Burgner  
Mr Gray

*NEDC. No announcement just hit for mark. I've got back for W/M, but ASPP. Please. For W/M. It is possible that NEDC on Oct 14. There was a letter & taken into account. The final.*

ECONOMIC DEVELOPMENT COMMITTEES ETC

The Chancellor is opening Walter Eltis' Keynes Conference at 11.15 am tomorrow, Tuesday 15 September. This minute provides a brief line to take in case Mr Cassels raises EDCs in the margins.

2. We are in the process of obtaining the views of officials from interested departments on the extent to which the initial Government list of EDCs should be changed. We plan to put a revised list to the Chancellor for initial approval tomorrow night, in tandem with other departments consulting their Ministers. This should allow time for the Chancellor, if he wishes, to hold a meeting to discuss the proposals with us towards the end of this week. A near final Government list should then be available for Sir Peter Middleton to discuss with the Group of Four on Tuesday 22 September. If necessary, loose ends can be followed up at Steering Group on 29 September, and a final list can be issued around the end of the month, in good time for the October 14 NEDC. At that NEDC there should be a final opportunity for other parties to comment on the Government's conclusions, though we would not envisage this being done in such a way as to re-open any issues.

LINE TO TAKE

3. If Mr Cassels asks about progress the Chancellor might simply draw on the following:

- Grateful to NEDO, CBI and TUC for submitting full representations by the 4 September deadline for comments. We are now carefully considering all representations. Sir Peter Middleton should be in a position to discuss this with the Group of Four on Tuesday next, 22 September.

*Decision, and any reaction & comments from TUC/CBI should have been out before 14/10.*

Philip Wynn Owen

P WYNN OWEN

PWO  
to  
APS/CA  
14/9

Note  
Terry has spoken to  
JOS.

AA 17/9

1 Alex  
2 C/Content?

From: J ODLING-SMEE

OR 16/9

16th September 1987

CHANCELLOR OF THE EXCHEQUER - 12/2

pay

cc Sir Peter Middleton  
Sir Terence Burns  
Mr Monck  
Mr Culpin

quills with

KEYNES CONFERENCE

The final session of the conference in the second half of Friday morning is set aside for a discussion of the implications of what has been discussed earlier for the current situation. There are speakers from the TUC, the CBI and NEDO. Originally Walter Eltis asked the Treasury if we would provide a speaker and we refused. However, Walter Eltis has asked me whether I would make one or two remarks from the floor. As this session will be open to the press and on the record, unlike all the others, I attach a draft of what, with your agreement, I would say. I hope to find time tomorrow to insert references to parts of the discussion at the conference that are relevant to what I am saying.

CHANCELLOR

Dd. or.

WS.

J ODLING-SMEE

Ch

Some of this alarms me if it is  
likely to be taken as official Tsy news  
(rather than Smees personally).  
Ask Terry to vet

AA

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but to be for  
JOS to press  
out. No press  
for trouble  
like this.

## KEYNES CONFERENCE

I would like to pose three questions that are central to the concerns of this conference and the General Theory, and are also highly relevant to the situation today in Britain and many other European countries. I shall also indicate my own answers to them.

### Why is unemployment high?

2. The first question is: why is unemployment so high in most European countries?

3. Essentially my answer is that the high unemployment is the result of the slow adjustment of the labour market to disequilibria, combined with the large adverse shocks which caused the increases in unemployment in the first place. These shocks came from both the demand and the supply sides and they include: increases in oil prices and the associated world recessions, the move to non-accommodating policies, the increased burden of taxation, the rise in replacement ratios, the increase in the power of trade unions, and the reduction in job search intensity by the unemployed. This last factor may be partly endogenous: job search intensity decreased because unemployment was rising for other reasons (ie hysteresis). Some of the supply side factors (eg the rise in replacement ratios and trade union power) are identified with the rising NAIRU by some people, and in many cases they have recently been moving in a more favourable direction.

4. In addition to these general factors the UK experienced: the need to restructure the economy in response to North Sea oil, sharp wage and price shocks in 1979 and 1980, and a major shake-out of labour in 1980-81. Moreover, most people would agree that the adjustment of the British labour market to disequilibrium is slower than that in other countries, including many European countries.

### Conditions conducive to falling unemployment

5. My second question is: what are the conditions most conducive to falling unemployment?

Sounds  
to  
active  
Tautology?

6. A natural way to set about answering this is with reference to the reasons for high unemployment. If this was caused by slow adjustment and adverse shocks, will it not be cured if adjustment were to speed up and there were to be some favourable shocks? My answer is a qualified yes.

7. Certainly yes to faster adjustment. Better training and retraining of labour, improved flexibility of the housing market, increased competition in product markets, greater pay flexibility (both at the aggregate level and in terms of pay relativities between regions, occupations, etc) and so on would all help. Although they may not have a big impact in the short term, they will surely lead to greater stability of employment in the longer term.

8. I qualify my yes response to favourable shocks because of the need for great care in interpreting which shocks are favourable. It would be wrong to assume that the reversal of all the adverse shocks of the last 20 years, even if it were possible, would be desirable. In particular, although reductions in aggregate demand were among the factors contributing to the rise in unemployment, it does not follow that there is a deficiency of demand now.

9. Nominal demand is not inadequate: money GDP is growing at 7% or 8%. If this is not translated into a sufficiently high growth of real demand, it is because of the slow adjustment that I have already mentioned of wages and prices to unemployment.

10. What will happen in current circumstances if nominal demand rises? We cannot be at all sure how the supply side of the economy will respond: there is considerable uncertainty about the response of wages and prices to demand pressure and the behaviour of the exchange rate is notoriously unpredictable. But the evidence certainly suggests that higher nominal demand would tend to increase prices as well as output, and that the proportion going into higher prices would increase over time and that going into output decrease as the initial increase was crowded out. The reduction in unemployment that would result from an increase in demand would

And Govt doing lots

therefore be largely temporary, and would be accompanied by increased inflation. This does not sound like the sort of favourable shock that is required.

11. The improvements that one would really like to see would be supply side changes that would permit higher output and employment without higher prices. Slower wage growth would obviously work in this direction. So would higher productivity, which would permit higher output without higher prices, but not necessarily higher employment. But higher productivity often goes with other supply side improvements which are more helpful to employment: for example, capital deepening investment is often associated with capital widening investment; and higher productivity may be associated with better trade performance (for given productivity and competitiveness).

*Swd say somewhere that unemployment is falling by 1/2 m a year.*

12. For beneficial supply side developments to raise output and employment at existing prices macro-economic policy has to be allowed to accommodate the extra output. It has to ensure that the aggregate demand curve is shifted to the right to the same extent as the rightward shift in the aggregate supply curve. The MTFSS does this, by adjusting the medium-term path of money GDP in line with changed assessments of sustainable output growth rates.

### The role of macro-economic policies

13. My final question is: what should the role of macro-economic policies be in a world of high unemployment?

14. I have mentioned the need for macro-economic policy to accommodate supply side improvements. In addition it can help by maintaining a stable and predictable economic and policy environment which will encourage investment.

15. This is probably uncontroversial. Much more debatable is whether macro policy should aim to expand demand so as to reduce unemployment. In theory this would seem to be a possibility: both monetary and fiscal policy affect nominal demand and hence can reduce unemployment for a temporary period.

16. But expanding demand would add to inflation. This would create more uncertainty about the government's intentions and, through the reactions of financial markets, shorten the period of temporary reduction in unemployment. We would be heading back towards stagflation. Greater uncertainty and higher inflation would discourage supply side improvements.

17. There are also practical problems about any kind of precisely calculated activist macro-economic policy. We do not know exactly what is happening in the economy at any one time - data are subject to delays and frequently revised, and more than one interpretation may fit the limited number of facts. We know still less about developments in the future: the margins of error around model-based projections of key variables are large.

18. To conclude, I think that we should not try to be too ambitious in the use of macro-economic policies. We are still too close to the period of highly volatile inflationary expectations and the uncertainty they bring to take risks with the Government's reputation for standing firm against inflation. And we know too little about the way in which the economy, especially the supply side and the exchange rate, would react to a change of policy. A stable and predictable macro-economic policy framework may be unexciting but it provides the background for sound, forward-looking decision-making by the private sector.



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# TUC

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## Trades Union Congress

Sir Peter Middleton KCB  
The Treasury  
Parliament Street  
London SW1

PPS  
cc Mr French  
Mr Burgess  
Mr Gray  
Mr Wynne Owen  
Mr Culpin

Your reference:

Our reference:

S/DL/JA

Date:

September 21 1987

Dear Peter

### Group of Four

I am enclosing a note for discussion at tomorrow's meeting of the G4. This is a TUC note, though, as you will see, it does refer to the position of the CBI on a number of issues. I hope this will be helpful to the discussion.

I am sending a copy of this letter to the other members of the G4.

Yours sincerely

*Norman*

General Secretary

General Secretary: Norman Willis    Deputy General Secretary: John Monks  
Assistant General Secretaries: Roy Jackson and David Lea, OBE

Introduction

- 1 The NEDC brings together government, management, the trade unions and other interest to assess the economic performance, opportunities and problems of the UK. The EDCs, tripartite sectoral committees, are similarly constituted; their task, guided by the Council has been to analyse the problems of the industries or sectors they represent, working towards improving industrial performance and competitiveness.
- 2 It is clear however from Council discussions during the last few years that the issues affecting United Kingdom competitiveness are not just sectoral. Broader strategic issues, such as the European market, import substitution, innovation and the supply of skilled labour all impact on firms.
- 3 In this, as in previous reviews, the aim is rationalisation of the EDC structure, based on first principles:-
  - the problems and issues facing industry;
  - the best method of tackling them.
- 4 The new structure should:-
  - be flexible, to adapt to change in the economy and in industrial structure;
  - be able to tackle strategic issues;
  - have the capacity to handle specific remits.
- 5 The new system would therefore comprise:-
  - steering groups embracing a number of EDCs tackling cross-sectoral, intra-sectoral and strategic issues.
  - industry groups, including the existing EDCs dealing with specific industries where there are defined areas of work to which they can contribute and can produce concrete results.
  - ad hoc task forces or working parties with a limited and specific remit to report back to the steering group or industry group
  - a rolling review of each group's remit, to be reported to the supervisory board annually
- 6 The relationship between the Council and these groups should be strengthened. Issues arising from Council meetings need to be addressed; the delivery mechanism for this work would be an extended Group of 4 acting as a supervisory board, identifying and guiding the work of the groups. The supervisory board would be in a position to take a strategic view, taking all industries together, and part of its remit should be to identify new industrial priorities and new areas of work. Feedback from the groups and from outside the NEDC structure is essential if problems facing industry are to be tackled.
- 7 Not all industries need to be covered permanently by tripartite bodies; firms, trade associations, unions and Government divisions may already be doing the necessary work effectively.

The issues facing United Kingdom industry

8 UK companies are now in a stronger competitive position than they were at the beginning of the decade but improvements have been at the cost of investment and employment. To achieve long-run international competitiveness increased investment must be a priority, in the manufacturing sector and the infrastructure - education and training as well as roads and utilities. There are major areas of concern, issues to be tackled:-

- import substitution and export promotion
- capacity constraints
- education
- training
- productivity
- expenditure on research and development
- profitability
- investment in manufacturing infrastructure including roads, utilities, housing, inner cities.
- European market
- exchange rates
- innovation
- design
- public procurement

9 Much good has been done by the NEDC and EDCs in the past, tackling such cross-sectoral issues, for example, the import-substitution initiative, work on design and quality and the national agreement on large site projects.

Specific Proposals

10 Consumer Group

i This sector is obviously of great importance to the economy and there are strategic issues to be tackled, involving the whole 'food chain' from food production through to distribution, including import substitution and work on manufacturer-retailer panels.

The TUC would see the Distributive Trades and Food and Drink manufacturing EDCs as essential elements in tripartite work in the 'food chain'. Moreover, the TUC is opposed to the proposed downgrading of the Agriculture EDC; tripartite work in some form in this area needs to be continued.

The CBI propose discussion on the possibility of a steering group incorporating the Agriculture, Food and Drink Manufacturing and Distributive Trades EDCs. This steering group would identify specific issues for task force work. The Food and Drink Federation however strongly recommend the retention of the Food and Drink Manufacturing EDC with improvements in its effectiveness.

- ii Work to be done on import-substitution, manufacturer-retailer panels, design, productivity and the Better Made in Britain campaign indicates the need for tripartite activity in the clothing, footwear, furniture and textiles sectors although ideas as to the most suitable structure differ.

The TUC propose separate EDCs for Clothing, Cotton and Allied Textiles and Knitting, and would like to see the work of the Joint Textiles Committee and Furniture and Footwear EDCs to continue especially in relation to import substitution and manufacturer/retailer liaison.

The CBI propose a merged steering group comprising the Clothing, Joint Textile, Footwear, Furniture and Cotton and Allied Textiles EDCs. The Knitting EDC would remain as a separate group for the time being given its current work programme.

## 11 Electronics Group

These industries have experienced rapid growth, sharp retrenchment and capacity constraints due to skill shortages. Work on import substitution, component supplies, competitiveness, restructuring, technology, and public sector procurement must continue.

- i Tripartite activity in Information Technology and Office Systems is seen as important for the electronics industries. In the past, work has been in sub-groups of EDCs.

Both the TUC and the CBI propose a merged Electronics Industry steering group including Information Technology and Office Systems; the CBI would also add Electronics Components to this group.

- ii Consumer Electronics and Domestic Electrical Appliances face related problems and might form the basis of a new group while for the time being the Electronic Capital Equipment EDC has a full work programme aimed at improving competitiveness and a record of successful initiatives such as STARTS and AMIS.

## 12 Engineering Industry Group

The Government's proposed list of EDCs to be retained left considerable gaps in the coverage of the engineering industry. Existing EDCs have not all been effective but there remain very evident problems to tackle through tripartite activity.

Developments in the engineering industry necessitate work on issues such as maker-user links, structural problems, trade, component supplies, training and technology.

- i The CBI would like to see an Engineering industry steering group to tackle cross-sectoral issues.
- ii The heavy end of the industry might be represented by a separate group. The CBI envisage a merged steering group of Heavy Electrical Machinery, Industrial Electrical Equipment, HVACR Equipment and Process Plant EDCs.
- iii The TUC envisage a new Industrial Equipment group covering electrical and mechanical engineering and a separate group covering Heavy Electrical Machinery and Process Plant.
- iv The CBI and the TUC see an important role for the Committee on Manufacturing Systems and the CBI suggest that it might be part of the larger Engineering Industry group.
- v The supervisory board must keep the engineering industry and potential issues for working groups to tackle under review.
- vi The TUC regret the Government's proposal to wind up the Iron and Steel EDC.

## 13 Process Industries Group

- i Given the on-going work programme there is a need to continue tripartite activity in Pharmaceuticals, Plastics Processing and Specialised Organics.

The CBI propose that these groups would report to a Chemical Industry Steering Group which would tackle cross-sectoral issues.

The TUC in proposing the retention of separate EDCs for pharmaceuticals, plastics processing and specialised organics emphasise that there are issues peculiar to these industries, patents in pharmaceuticals for example, and notes that the existing arrangements provide for liaison between the EDCs and the Chemicals EDC of which their Chairman are members.

- ii The task force on packaging, to include paper and plastics packaging should be retained until the work is completed.

## 14 Project Engineering and Construction Group

There are many issues in common facing these industries. This is an important sector of the economy; there are rapid changes within the sector and in the foreseeable future, major projects to consider including the Severn Barrage, power stations, the Channel Tunnel, renewal of Britain's infrastructure, and the rejuvenation of inner cities.

It is difficult to draw boundaries between the different industries but there is a danger of having an umbrella group, too large to be effective. Both the proposed steering group and the supervisory board must be aware of this to ensure flexibility in the group's structure to tackle strategic and specific issues.

The CBI propose a steering group comprising the Building, Civil Engineering and Engineering Construction EDCs with HVACR (but not HVACR equipment which should come under engineering.)

The TUC are concerned that there should continue to be a group covering Engineering Construction and Construction Steelwork and recommend retention of an EDC in this area, separate from Building.

- 15 The Committee on Industry and Finance and the Innovation Task Force have specific tasks and should continue until these are completed.

CONFIDENTIAL

*Pages  
PSE*

From: P WYNN OWEN

Date: 21 September 1987

*\*  
Le X, 12 minutes  
not in packet  
These comments are  
in the report  
back to  
M.M.?  
an OR group*

1 MR. GRAY

*Feb 21/9*

2 SIR P MIDDLETON

ccAPS/Chancellor

Mr Monck

Mr Burgner

Mr Culpin

**GROUP OF FOUR - 22 SEPTEMBER 1987**

G4 meets at 3pm on Tuesday 22 September. Mr Cassels letter of 17 September should serve as a reasonable agenda.

2. Besides the initial responses received by 4 September from the parties you will also regrettably need to have to hand the further notes sent by Mr Banham (18 September) and Mr Willis (21 September). Their existence demonstrates a muddle in the CBT and TUC. The intention was a joint paper, but the TUC were surprised on Friday by Mr Banham jumping the gun. You may be able to make some play of this. But neither note need greatly affect the strategy agreed at the Chancellor's meeting.

**RATIONALE/CRITERIA**

3. You asked for a passage explaining the basis on which choices had been made. You might draw on the following:

- before my letter of 7 July, relevant departments were asked to assess whether committees merited continued public funding after the end of the current FY.
- they were once again asked to consider carefully their decisions following the representations received by 4 September deadline for comments.

- each case decided on its merits, taking account of each committee's past track-record, recent performance, and whether there remained real, solid work for the EDC to do to the economic benefit of the sector in question.
- also had regard to whether tripartism had any special benefit to confer upon a sector which was not covered by existing bilateral discussion - eg between sponsor departments and industries; between trade associations and their members; between unions and employers etc.
- in each case we needed persuading that continued public funding was justified beyond end of current FY. Made it clear that if other parties wished to see an EDC continue, they were of course welcome to provide the financial and secretarial support for it. To date response from TUC, CBI and others to this offer has been disappointing.

4. When asked why any particular committee has not been included, simply refer to it not having met all the criteria mentioned above and say detailed points should, if necessary, be raised with the relevant sponsor departments.

#### LIST OF COMMITTEES

5. Take your letter of 7 July as a starting point (not the tables attached to John Cassels' letter) and expand on them orally, using paragraphs 4-10 of Annex A of my minute of 16 September to describe changes. In brief, HMG now proposes:

- (i) To accept the NEDO case for widening 2 of the 3 continuing **electronics EDCs**, but still within overall halving of present resources in this sector (6 EDCs).
- (ii) To accept case for retaining **manufacturing systems EDC**.
- (iii) To accept inclusion of Engineering Construction in the new **Construction** grouping, but again with approximate halving of present resources for total construction work.



- (iv) To remove Food, Drink and Packaging Machinery EDC from list, as originally proposed on 3 September by CBI.
- (v) To rename leisure EDC as **Tourism and Leisure Industries EDC**.

6. Points to watch include:

- (i) Cassels has been pressing for both the retention of the Food, Drink and Packaging Machinery EDC and a separate Task Force on Packaging. Banham's latest submission, of 18 September now talks of maintaining a Food and Drink Packaging Task Force. So you might find it difficult to maintain this <sup>EDC</sup> deletion from the original list. If necessary say you will refer back to Ministers, without commitment. (John Banham's letter of 18 September has also gone back on his initial advice of scrapping the Food and Drink Manufacturing EDC. This was embarrassing for him with the Trade Association, but of little interest to us, since it always featured on our list for retention.)
- (ii) Banham's submission of 18 September proposes one major new addition - a Task Force on Management Education and Development. He wants this to monitor progress in following through the conclusions of the Handy and Constable Report. No-one else has sought this and it was not in Banham's original response. Argue against it, saying that you thought the CBI had agreed at the February NEDC to take the lead in consulting with industry on the issues raised by Handy and Constable and that the CBI had agreed to report back to NEDC in October. The FME, an off-shoot of the CBI, is meant to be getting on with this work, built around the Charter Group of leading companies. Surely duplication should be avoided in this field, industry should remain to the fore and there should be no attempt to pre-judge the CBI report back to the October NEDC.

(iii) You might be challenged on the absence of any Food Chain activity from your proposals. Say this was carefully considered between the relevant departments, but that it was decided that the ad hoc Sector Group on Agriculture and the Food and Drink Manufacturing EDC could deal separately with individual food chain issues on an ad hoc basis as they arose, though this should not be taken as meaning an increased role for either committee.

(iv) There might also be some reference to the possible privatisation of the Constructional Steel Work EDC - see the attached letter of 11 September from the Steel Construction Institute to John Cassels. You might say this is encouraging, but that we would only be convinced of its feasibility if it was demonstrated that full costs would be met by outside bodies.

X 7. Concessions - the Chancellor had a private word with Lord Young following our meeting last Thursday. It was eventually confirmed that Lord Young had agreed to your being able to make both of the concessions identified at our meeting with the Chancellor - and Engineering Industries Sector Group, and a Maker/User Group, though DTI would like each to be limited in scope and time at first. You might consider holding both of these back for most of the meeting and only shifting towards them in the light of pressures. Whether you make the concessions on the ground or say you have to refer back to Ministers partly depends on how the meeting is going. But the serious risk of leaks if you agree firmly to anything probably points to the latter course if possible.

#### SUPERVISION

8. Propose the supervisory structure in Annex B to my minute of 16 September, though we now envisage an annual G4 review of committee structure, rather than any "G5". The key points to stress are:

(i) there should be an annual review of all committees (rather like a company's corporate plan);

- (ii) it should take place in November or December after the grant-in-aid has been fixed bilaterally between HMT and NEDO;
- (iii) the paper by NEDO should include a specific budget for each committee for the coming FY;
- (iv) committees should be fundamentally reviewed at least every two years.

Avoid any reference to Sir Brian Hayes letter of 15 September to John Cassels - Messrs Banham and Willis should remain unaware of this exchange of letters.

9. You might offer to chair one G4 meeting a year to review the committee structure, on the condition that it is purely annual; NB para 13 of Banham's latest paper suggests Cassels take the chair. Keep open the possibility of someone senior from DTI attending the annual review meeting of committees with you if you can, without any firm commitment.

10. Suggest that TRIG be effectively replaced by a Monitoring Group with similar membership, which can approve changes in the committee structure at other points in the year subject to (a) unanimity, (b) no increase in the grant-in-aid and (c) written clearance by G4.

11. Both Banham submissions contain the unfortunate suggestion that there should be certain "standing committees" which presumably go on for all time. Make it clear that all committees, whatever their nature, should have a maximum life of 2 years and should be scrupulously reviewed at that point, with no presumption that they must go on. Bear in mind the record of the Prime Minister's 26 June 1987 meeting on NEDC which said:

"Agreement that the Government's aim in due course should be abolition. This objective would need to be approached gradually ...".

To this end, we must ensure that the annual G4 should be held on a clear understanding that the overall scale and scope of NEDO activity

should not be increased.

## NOMENCLATURE

12. There must be a significant risk that time will be wasted on the most trivial issue - what the various types of committees should be called. But this is important, to the extent that we wish to avoid large, costly umbrella committees with uncontrollable numbers of sub-structures. The Chancellor at our meeting last Thursday was minded to accept the CBI suggestion of "Sector Group" in place of "EDC", while also allowing for "Ad hoc Working Parties". Effectively, the former would be an amalgam of the first two definitions in Annex C of my minute of 16 September.

13. Unfortunately, John Banham's latest paper reverts back to three definitions, since he has now added in "Industry Groups" which he sees existing on a standing basis. Resist this suggestion and say the Chancellor was taken with Mr Banham's initial two definitions - just "Sector Groups" and "Working Parties". Anything not falling readily under either of these tags can simply be called "Committee". It is also not clear why Banham has switched from "Working Parties" to "Task Forces". We prefer the former, which has a more investigative, less pro-active flavour.

14. John Banham's latest letter of 18 September also suggests in paragraph 12 of its attached paper that the annual G4 should agree the annual operating plan and budget for the Office, and that the annual budget once approved by the G4 would need to be submitted to NEDC formally as is the case at present. We need to beware of both these points. Make it clear that the NEDO grant-in-aid will be set bilaterally between the Treasury and NEDO each summer.

## TIMETABLE

15. Mr Cassels will ask what happens after the G4 and what part, if any, the NEDC is to play on 14 October.

16. You might say you will refer back to Ministers (possibly on one or two concessions), while noting that the Chancellor is in the US for a week or so. Say that the intention would be for him to

write to the parties in early October (possibly 5 October) giving the Government's final decisions.

17. Say that Lord Young will now chair the October meeting and that PES round commitments for the Chief Secretary probably mean that the Paymaster General will attend for HMT.

18. On handling at the NEDC meeting, draw on para 4 of Mrs Ryding's minutes of our meeting with the Chancellor on 17 September. This points, in effect, to having a Chancellor's letter of 5 October taken below the line, while explaining to the parties that, though it is simply being noted, the chair will allow a brief opportunity for them to comment at the start of the meeting.

19. NEDO Staff and Grant-in-Aid - seek to avoid any discussion of both staff and budget matters with the CBI and TUC present. These are bilateral matters for discussion between HMT and NEDO.

#### MINTUES

20. John Cassels proposes having formal minutes of the G4 meeting. Say you have no objection to this, provided they are circulated on a strictly confidential basis to those taking part and are not intended for general circulation to EDC Chairmen, the press etc. It might be worth getting this straight at the start of the meeting.

#### MACRO DISCUSSIONS

21. You will offer the Chancellor's attendance at a macro discussion in January, rather than April, on the basis that:

- (i) the Chancellor does not attend (and the Budget is not taken) in April.
- (ii) the TUC and CBI formal Budget representation meetings fall [not for use in front of TUC - the CBI might retain an informal meeting];
- (iii) the Chancellor cannot comment on Budgetary matters in January.



P WYNN OWEN



cc: Sir P Middleton  
 Mr Monck  
 Mr Burgner  
 Mr Gray  
 Mr Flanagan G  
 Mr Wynn Owen

File  
 B1

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

22 September 1987

The Rt. Hon. Norman Fowler MP  
 Secretary of State for Employment

*Norman*

**NEDC MEMBERSHIP: SIR BRYAN NICHOLSON, ROBIN LEIGH-PEMBERTON,  
 RACHEL WATERHOUSE**

As you are aware, Bryan Nicholson's appointment to the NEDC is due to run until November 1988, but he will be leaving the MSC on 21 October. He has written to me suggesting that his place be taken by his successor, once appointed, and that he should continue to sit on NEDC until then.

NEDC has a continuing interest in manpower issues and it would probably be appropriate to retain an MSC presence. But Chairmanship of the MSC does not confer membership of the NEDC ex officio, so I do not think it would be appropriate to say now that Bryan Nicholson would be followed on NEDC by his successor at MSC: that should await the actual appointment. I therefore propose simply to write to Bryan asking him to continue on the Council for the time being.

The NEDC membership of Robin Leigh-Pemberton and Rachel Waterhouse have now both expired. Neither is a Council member ex officio, but I think that there is a good case for continued representation of the viewpoints of both the Bank of England and the Consumers' Association. Further, I think it would be sensible to retain an element of continuity on the Council while the changes in NEDC and NEDO are taking place. I therefore propose to invite both Robin Leigh-Pemberton and Rachel Waterhouse to serve a further two-year term.

We shall have to resolve these appointments in good time for the NEDC meeting on 14 October. I would therefore appreciate it if your office and those of David Young, Nicholas Ridley, Kenneth Baker and Cecil Parkinson, to whom I am copying this letter, could let my office know this week whether you are content with this.

*Yours  
 Nigel Lawson*

NIGEL LAWSON

**Economic Director**  
**Walter Eltis**  
Direct Line 01-211 4849  
Secretary 01-211 6914



**National Economic  
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23 September 1987

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The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
H M Treasury  
Parliament Street  
London SW1P 4QX

CH/EXCHEQUER	
REC.	23 SEP 1987 ✓ 22/9
ACTION	SIR P MIDDLETON
COPIES TO	SIR T BURNS
	MR MONCK MR BURGNER
	MR P GRAY MR WYNN OWEN

Dear Chancellor,

I hope you will think that my summing up at the Keynes Conference (which no one contradicted at the time) fits quite well with your opening statement, which has had such a splendid press. I expect Sam Brittan's article will have given you especial pleasure.

*For better  
the more  
a letter for me.*

*Thank M-L for  
summing up the  
Laws with  
I shall all  
personally  
accept - as he  
no conclusions  
LBS paper.*

*I do not  
agree to  
the latter*

Yours sincerely,  
*Walter Eltis*  
*(show in TB)*

CONCLUDING REFLECTIONS ON THE NEDO KEYNES CONFERENCE - THE PRESENT DAY  
RELEVANCE OF KEYNES

WALTER ELTIS - ECONOMIC DIRECTOR OF THE NATIONAL ECONOMIC DEVELOPMENT OFFICE

Six years after publication, half the citations there will ever be to an ordinary piece of economics will have appeared. The half life of the average economics article in an academic journal is a mere six years, and very little economics indeed lasts 50 years. The fact that Keynes and Keynesian are part of our language after 50 years and that there is so much interest in present day interpretations of how relevant what he had to say is to our world is a testimonial to his greatness as an economist, and to the importance of his achievement. It is interesting to examine what happens to the economic classics after a long period. In 1826, fifty years after the publication of Adam Smith's Wealth of Nations there was a conference like ours and everybody said that Smith had been superseded by David Ricardo and that all sorts of errors in Adam Smith had been uncovered. But Smith's reputation rose in the 150 years from 1826 to 1976. We must bear in mind that if we get the significance of Keynes wrong at our Conference in 1987 as our predecessors got Smith wrong in 1826 then it is not Keynes who will suffer but our own reputations. So what should we make of Keynes today?

I will focus on only one aspect of Keynes's contribution. An enormous range of issues have been discussed at this conference, but to the outside world Keynes means monetary and fiscal reflation as a cure for unemployment. I will set out the bearing of discussions at this conference on this issue. There has, surprisingly, been a considerable degree of consensus in the



arguments that have emerged. We must consider three main issues.

The first which would surprise some people is that it used to be widely believed that reflationary fiscal policy will not significantly increase effective demand and employment, in other words, that this will have a zero impact at the very start. So far as that issue is concerned, there was considerable interest in this conference in a paper by Alan Budd and various colleagues from the London Business School. Rightly or wrongly the London Business School is often thought to parallel thinking in the Treasury because Alan Budd and Sir Terence Burns were close colleagues before Sir Terence Burns became Chief Economic Adviser in the Treasury in 1980. The London Business School said in their paper that until recently they had taken the view that fiscal reflation would not have a significant effect on output and employment but they have now changed their model slightly and they believe that fiscal reflation will have quite significant effects that are set out in their paper. There would indeed be fairly general agreement by the participants that fiscal expansion will have some positive effect on demand and employment in the short term. There would be perhaps one participant who would consider the size of the fiscal multiplier as being quite small, but it would be right to say that most of the other participants regard the fiscal multiplier as significant so in their opinion fiscal reflation will raise demand and employment.

But will the increase in employment last? Since 1968, when Milton Friedman initiated the concept of the natural rate of unemployment there has been a school in economics which has taken the view that the unemployment rate will tend towards an equilibrium or natural rate that is not significantly influenced by macroeconomic considerations: any attempt to get away from that equilibrium rate would lead to rapidly accelerating wage inflation.

There was one notable supporter of that point of view at the conference, but otherwise eight of the papers referred to a rather interesting new development in the subject which gives more scope for Keynesian reflationary policies and that is the concept of hysteresis. The suggestion in the hysteresis literature is that a society can get used to any unemployment rate that chance events produce. For instance, if there is a major recession, then as effective demand is reduced, unemployment will rise sharply, people will become used to being unemployed after a time, and society will begin to alter in a manner where unemployment becomes more socially acceptable and the economy will reach a temporary equilibrium in which it appears to be locked into a far higher unemployment rate than before. The counter example would be the second world war where, because an enormous demand for labour was created and virtually every able bodied person was found something useful to do, then for 20 years after the war there was no belief that a significant number of people had to be unemployed, and there was no social culture which took a significant fraction of unemployment for granted. The unemployment rate averaged only 2% from 1945 to 1965.

The hysteresis literature which is at a very early stage, leaves considerable scope for a Keynesian approach to the creation of employment, because it signifies that whatever high unemployment rate an economy has temporarily settled into as a result of adverse shocks is in principle reducible, for with favourable shocks or stimuli it should be possible to enable a society to become accustomed to a lower rate of unemployment.

Almost all participants at the conference believe that the hysteresis literature needs a great deal of careful attention because it gives a society that has high unemployment opportunities to reduce it.

We therefore come to the question of whether fiscal reflation to reduce unemployment will have inflationary effects. If rising demand and employment have inflationary effects, political judgments would have to be made as to whether the price that had to be paid for cutting unemployment was too great. It emerged in the discussion of the London Business School paper that if a particular policy mix which can be derived from the information in their paper was followed, then the inflationary effects of the fiscal reflation that resulted could be rather slight. The combination of policies suggested was a simultaneous increase in public expenditure and in income tax which could then expand the economy with a balanced budget and no increase in borrowing.<sup>1</sup> The LBS equations suggest that this would reduce unemployment with no significant increase in inflation. If we accept that this line of argument is well founded, the question of political choice again arises, because whether it is worth acquiescing in an increase in income tax in order to cut unemployment is a matter for the electorate to decide. The electorate has recently indicated that it does not wish to see higher income tax as a price for higher public expenditure.

There is also doubt that this line of policy would have no inflationary impact. Keynes himself has said that "hence, in general, supply price will increase as output from a given equipment is increased. Thus increasing output will be associated with rising prices, apart from any change in the wage-unit." [General Theory page 300]. Christopher Taylor of the Bank of England has contributed a paper which arrives at Keynes's result that fiscal reflation will generally raise the inflation rate.

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<sup>1</sup>The predicted effects of these policies can be derived from a permutation of the results set out in Tables 3 and 4

The London Business School seems to have avoided Keynes's result by assuming that if income tax is increased there will be no tendency for wages to rise more rapidly. That is in conflict with a great deal of other published work which finds that increases in income tax do raise the rate of wage inflation. There has been general agreement in the Conference that if public expenditure is raised without increasing taxation so that the extra public expenditure has to be financed by borrowing, then there will be downward pressure on the exchange rate either in the short term, or the long term, and hence a significant inflationary impact on the economy. There was a very clear consensus that increases in public expenditure via extra borrowing were extremely likely to have a downward impact on the exchange rate. Peter Sinclair in his paper indicated that in the American case extra borrowing seemed in the first instance to raise the exchange rate; but this might be peculiar to the USA, and even in that case the exchange rate has to go down in the end. Thus inflation may be postponed but it must come through eventually. I do not believe that anyone at the Conference believed that you can increase public expenditure without increasing taxation, and avoid an increase in inflation.

A number of economic issues associated with inflation are helpfully discussed in the paper by Robin Matthews and Alex Bowen who suggest that if the inflation rate rises, there is a significant increase in the number of bankruptcies, lower Stock Exchange asset valuation ratios and a number of adverse supply side effects which will reduce employment. There may therefore be no net long term beneficial effect on employment from Keynesian reflationary policies if inflation rises at the same time but even if net employment rises, a significant political problem remains. The Chancellor told us in his opening statement that in his judgement, the electorate did

not take kindly to policies which raise the rate of inflation. In fact no British government which has significantly raised the rate of inflation since the Second World War has been re-elected, while four governments which have not raised inflation or have managed to bring it down have achieved re-election; so it may indeed be that the electorate votes out governments which increase the inflation rate.

If that is in fact the case, it would be possible to take the rather simple view that when Keynesian policies were universally adopted in the United Kingdom, politicians had the belief that the achievement of low unemployment was far more important than the containment of inflation. In the 1960s and the 1970s the electorate reacted by voting out a succession of governments which presided over an increase in the inflation rate and there is a widespread belief today that the inflation price of fiscal expansion is not worth paying. Perhaps the most damaging scenario would be a zig-zag political course in which one government pursues Keynesian policies which raise the rate of inflation and a successor government is then elected to reduce inflation again. Inflation may then end up where it started but there will be an enormous loss of GNP when that sequence takes place because the gain in GNP when effective demand is expanded by the first government in order to raise employment but which also raises inflation is far less than the subsequent loss of GNP when inflation has to be brought down again by the next government. Several papers have commented on the fact that the extra unemployment required to lower inflation is very great. Hence whenever Britain follows a cycle in which one government puts inflation up and the next pulls it down again, there is a significant loss of national income in the aggregate.

Does that mean that we are locked in and that we cannot pursue Keynesian

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There is no case for Keynesian fiscal reflation at the present time because demand is increasing quite as fast as productive capacity. But a case for Keynesian reflation could arise at some point in the future if demand grows far more slowly than capacity and unemployment rises sharply again. In such situations Keynesian reflationary policies (of a balanced budget nature) will make it possible to restore employment if governments are also prepared to increase taxation which is unlikely to be the case for some time to come.

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DEPARTMENT OF TRADE AND INDUSTRY  
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SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

PS/

29 September 1987

Cathy Ryding  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EXCHEQUER	
REC.	29 SEP 1987
ACTION	MR WYNN-OWEN
COPIES TO	SIR P. MIDDLETON MR MONCK MR BURGNER MR GRAY MR FLANNAGAN

Dear Cathy

**NEDC MEMBERSHIP : SIR BRYAN NICHOLSON, ROBIN LEIGH-PEMBERTON, RACHEL WATERHOUSE**

We spoke about the Chancellor of the Exchequer's letter of 22 September to Norman Fowler. I told you that Lord Young was content for both Robin Leigh-Pemberton and Rachel Waterhouse to serve a further two year term and for Bryan Nicholson to be asked to remain on NEDC for the time being. However, his personal view was that Bryan Nicholson's successor should not necessarily be appointed to be a member of NEDC. The MSC's role is being reduced and the next Chairman will be part-time only. In the circumstances, Lord Young wondered whether consideration ought to be given to replacing Bryan Nicholson with an individual from the private sector who has an interest in manpower and training issues.

Yours

Jeremy Godfrey

JEREMY GODFREY  
Private Secretary

DW1DLM



cc: Sir P Middleto  
Mr Monck  
Mr Burgner  
Mr Gray  
Mr Flanagan  
Mr Wynne Owen G

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

1 October 1987

Sir Bryan Nicholson  
Manpower Services Commission  
236 Grays Inn Road  
LONDON  
WC1X 8HL

A handwritten signature in cursive script, appearing to read 'Sir Bryan'.

**NEDC MEMBERSHIP**

Thank you for your letter of 8 September.

I can see no difficulty in your suggestion that you continue with your appointment to NEDC for the time being. Your appointment was not ex officio, so it does not automatically expire when you leave the MSC, though I note your view that your successor at MSC should in due course take over your NEDC post. However, since the appointment is not ex officio, I am sure that you realise it would not be proper for me to make any commitment on this without consulting the other interested parties first.

A handwritten signature in cursive script, appearing to read 'Nigel Lawson'.

NIGEL LAWSON

15/10/87

CONFIDENTIAL

Papers  
Pse

*c/content with line  
proposed >*

*CR 7/10*

FROM: P R C GRAY  
DATE: 7 October 1987

1. MR BURGNER ✓
2. CHANCELLOR

*Note at end*

*MB*

cc: Sir P Middleton  
 Mr Monck  
 Mr C D Butler  
 Mr Wynn Owen

*Yes, but  
 let yr  
 paper & mark if  
 shows progress  
 from PCSI. I do not  
 believe a clear link  
 exists between  
 independent  
 funding & NEDO  
 (from) NEDO  
 independent  
 problems  
 (or) add  
 cost.*

**NEDO STAFFING AND BUDGET**

Following your letter of 6 October to Mr Cassels giving your conclusions on the level of sectoral work, you may like a brief progress report on our consequential work on fixing NEDO's grant-in-aid for 1988-89 and the PES provision for the later years. This minute also seeks your views, in advance of the 14 October Council, on what arrangements would be appropriate for independent funding of any continuing work of EDCs that are being disbanded.

**NEDO Action and Proposals**

2. Mr Cassels has written to Sir Peter Middleton (letter of 28 September) saying "our assessment of our new situation has been that we shall require a continuing level of staffing and financial provision of some 60 per cent of that previously planned...though the discussions at the Group of 4 may point to a slightly higher figure." Previous plans were for provision to rise from £7.3 million to £7.7 million over the PES period.

3. The Office have already taken action to reduce staffing to roughly the 60 per cent level. They have handled the redundancy procedures with commendable professionalism and lack of publicity, aided by the fact that the invitation to staff to come forward for voluntary redundancy terms met with a strong response. Offers were accepted with effect from 30 September (giving the required 6 months' notice to the end of this financial year) that bring the staff complement down by over 60 to 118, broadly in line with the 60 per cent objective. There are apparently "a few" voluntary offers that have not been taken up. There have been no compulsory redundancies so far.

4. The attached table summarises the sort of staff structure that NEDO are now planning.

*can't find  
aw copy  
I'm afraid*



## Orders of Magnitude

5. Your decisions have involved reducing the number of Council meetings to 40 per cent, and the number of Sector Groups/Working Parties to about 50 per cent of the current level. Even allowing for some of the retained activities having a relatively high resource input, this suggests there is at least an arguable case for reducing staffing and the budget to 50 per cent, rather than 60 per cent, of present levels.

6. That assessment is supported by our investigations to date of NEDO's proposed new staffing structure. Leaving aside Communications and Administration NEDO envisage 30 Grade 7s. That looks excessive in relation to 18 Sector Groups/Working Parties, even allowing for development work unrelated to specific committees and specialist support. In one instance, the Committee on Industry and Finance, NEDO apparently envisage the full time involvement of one Grade 5 and 2 Grade 7s - virtually equivalent to the average Treasury division.

7. So we are exploring with NEDO the case for a grant-in-aid closer to 50 per cent than 60 per cent of present levels. Although the difference between 50 per cent and 60 per cent - some £¼ million - is small in overall public expenditure terms, it is large in relation to NEDO's capacity to develop new areas of work.

8. To the resulting figures will have to be added, but for 1988-89 only, some transitional costs, eg for re-arranging accommodation at Millbank Tower. (We are also encouraging NEDO to explore the possibility of a move to cheaper accommodation than Millbank though we doubt if they can handle such a further shake-up for the time being.)

## Next Steps

9. NEDO will be putting to us a detailed grant-in-aid proposal at the end of this week. We are having a further discussion with them on 12 October and will then be aiming to finalise an agreement as soon as possible after the 14 October Council. Our general approach will be to fix a budget figure that is tight but not

punitive in relation to the new level of work. If we conclude that some further manpower run down from the figure of 118 is justified - which could be another, say, 10-15 - we shall need to consider whether, to the extent this cannot be met by further voluntary redundancies, it is better to insist on a small number of compulsory redundancies or allow the run down to take place through natural wastage.

10. Whatever the precise level of grant-in-aid, we propose to accompany it with a commitment to a detailed staff inspection in late 1988 and the imposition of a new manpower ceiling (currently 211).

11. We shall brief Lord Young on the state of play immediately before the 14 October Council and, if anybody raises the issue of the budget, advise him to say that in the light of the new [agreed] work programme the details will be sorted out in the normal way between the Office and the Treasury. We shall consult you again when our negotiations with NEDO are further advanced.

#### Nature of Independent Funding

12. One particular issue we need to resolve is what forms of independent funding of the work of disbanded EDCs to permit. In your original 1 July statement you said: "If, in some cases, one or more of the other parties wishes to take over the financing of all or part of the activities done in an EDC it would, of course, be open to them to do so." In his subsequent fuller letter of 7 July, Sir Peter Middleton referred to other parties taking over "the organisation and financing of all or part..." The issue that has arisen, including in discussion at the latest meeting of the Chemicals EDC, is whether we should allow an independently funded "EDC" to continue to form part of the NEDO machinery, or whether it should be independent organisationally as well as financially.

13. It may well be that this is academic, as there is unlikely to be a rush of independent funding offers. But the issue is at least under discussion in the Chemicals and Constructional Steelwork contexts, and may arise elsewhere now you have promulgated

the definitive list of continuing publicly funded activities. NEDO take the view that, as long as full costs (including a contribution to overheads) are met by industry/union funds, they should be free to manage independently funded "EDCs". And industry may itself find a continuing close link with NEDO a more attractive proposition for independent funding than some separate organisation.

14. We do, however, see dangers with this approach. While we will continue to encourage NEDO to maximise the amount of private funding, eg for publications and research, in those areas of activity where the Government considers some basic public funding is justified, it is another matter to allow NEDO to re-expand by integrating whole areas of work that do not justify public funding. Although it would be possible to work out a concordat about the relationship of the relevant independently funded staff to NEDO management, arrangements would be complicated, eg what would be the relationship to the Council and the regular G4 monitoring? And what responsibilities would NEDO (and the Government, as the grant-in-aid provider) have to staff employed by an independent "EDC" if industry decided to reduce or curtail its funding?

NOTE

15. Our inclination is, therefore, to discourage the possibility of independent funding being fully integrated into NEDO operations, pointing for example to the fact that the word "organisation" was included in Sir Peter Middleton's letter. But such an approach could be criticised, eg by some EDC Chairmen, and we should be grateful to know if you are content with the line we propose.

Our aim will be to ensure that NEDO's resources are fully adequate, but no more, for their reduced use. NEDO has managed to get their 60% staffing figure into the press which may make them more anxious to hold to it. My inclination would be to allow them to get to any lower level by <sup>voluntary action</sup> wastage rather than requiring compulsory redundancies.

PRC

P R C GRAY

TJB. 7/10

ANNEX

NEDO POST-APRIL 1988: ASSUMES ABOUT 60% OF 1987-88 BUDGET

MODULE

STAFF NUMBERS BY GRADE

	GR4/A/B+ (Grades 4-6)	B (Grade 7)	C1/C2 (HEO/ SEO)	C3/ AA (EO)	TYPISTS/SECS/CLERKS PHOTOPRS. MESSENGERS ETC.	TOTAL	(1987/88 Operating Plan)
Operations modules, including development work and private- ly financed operations	6	22 (32)	4 (13)	9	11	52	(93 <sup>+</sup> )
Economic & Financial Analysis Applied Economics (including statistics)	2	5 (5)	1	3	4	15	[+ Finance for Industry moved to ESD] (24 <sup>+</sup> )
Manpower & Education	1	3 (5)	1	2	2	8	(10½)
Communications	1	1 (2)	2	1	4	9	(15)
Secretariat/planning Administration (Personnel, Finance, Office Services, Computers)	1	1 (1)	5	4	17	28	(45)
	11 (18)	32 (48)	12 (22)	19 (34)	38 (65)	112	(127)
Directors and personal staff						6 (9½)	118 (117)

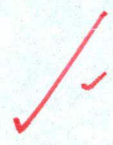
APS/CEX  
For information.

PRIORITY WRITTEN

MONDAY 16 NOVEMBER 1987

*CU/*  
to be aware

*MPW 13/11*



TREASURY

La - Barking

**JO RICHARDSON:** To ask Mr Chancellor of the Exchequer, whether he has any plans to change the criteria for selection of members of the National Economic Development Council.

*Sir PM*

DRAFT REPLY *CST.*

No.

*1. Not now think it like  
would work Sir B Richardson's  
success to be a note, give to  
diminished diminished status of the MSE  
(in whatever it is called).  
But it is worth consider whether  
there is anyone else who might  
conclude avoid to take up the  
Pack  
H.*

S J FLANAGAN  
IAE3 Division  
Ext 4472

P R C GRAY  
IAE3 Division  
Ext 4660

## BACKGROUND NOTE

1. This seems to be a follow-up to Ms Richardson's question of 21 October, which asked for a list of NEDC members; the criteria for selection; relevant qualifications of members; number of TUC-nominated places; and - probably the point of the question - the number of TUC-nominated places held by women. She asked identical questions of other public bodies. Her aim seemed to be to gather statistics to attack the TUC for not nominating enough women to high-status positions.

2. This time, Ms Richardson is asking only about NEDC and the Monopolies and Mergers Commission. This is probably because in the case of many public bodies, such as the Arts Council, the TUC has no particular relevance. Although no MMC members are nominated by the TUC, four current members over Trade Unionists.

3. The only change in the offing in NEDC membership is that Sir Bryan Nicholson has offered to leave now that he is no longer Chairman of the Manpower Services Commission. Given the restructuring of the MSC, it may not be appropriate to appoint his successor there to the NEDC. But the MSC chairmanship does not confer NEDC membership ex officio, so that would not be a change in the criteria for selection of members.

HOUSE OF COMMONS HANSARD 21/10/87 WA COL 791-92

**National Economic Development Council**

**Ms. Richardson** asked the Chancellor of the Exchequer whether he will list (a) the members of the National Economic Development Council, (b) the criteria for selection of members, (c) the relevant qualifications of present members, (d) the number of Trades Union Congress-nominated places and (e) how many Trades Union Congress-nominated places are held by women.

**Mr. Lawson:** Apart from myself, the current members of the National Economic Development Council are:

The Secretary of State for Employment	
The Secretary of State for the Environment	
The Secretary of State for Trade and Industry	
The Secretary of State for Education and Science	
The Secretary of State for Energy	
Mr. J. M. M. Banham	Director General of the Confederation of British Industry
Mr. R. Bickerstaffe	General Secretary of the National Union of Public Employees
Mr. J. S. Cassels, CB	Director General of the National Economic Development Office
Mr. J. Edmonds	General Secretary of the General, Municipal, Boilermakers and Allied Trades Union
Sir Robert Haslam	Chairman of British Coal
Mr. C. Jenkins	General Secretary of the Association of Scientific Technical and Managerial Staffs
Mr. W. Jordan	President of the Amalgamated Engineering Union
The Rt. Hon. Robin Leigh-Pemberton	Governor of the Bank of England
Dr. J. S. McFarlane CBE	Director General of the Engineering Employers' Federation
The Lord Marshall of Goring, CBE, FRS	Chairman of the Central Electricity Generating Board
Mr. D. A. G. Monk	Chairman and Chief Executive, The Dee Corporation plc
Sir Bryan Nicholson	Chairman of the Manpower Services Commission

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Sir David Nickson, KPE, DL	President of the Confederation of British Industry and Chairman of Scottish and Newcastle Breweries plc
Mr. T. J. O'Connor	Chairman and Managing Director, ELTA Plastics Ltd.
Sir Thomas Risk	Governor of the Bank of Scotland
Mr. R. Todd	General Secretary of the Transport and General Workers Union
Mrs. R. E. Waterhouse, CBE	Chairman of the Consumers Association
Mr. N. Willis	General Secretary of the Trades Union Congress

There are no specific qualifications for NEDC membership. I appoint members because they are likely to make valuable contributions to the council's discussions of industrial and economic matters, taking into account the views of the CBI and TUC.

Six of the present NEDC members were nominated by the TUC. None of these are women.

*mpw*

FROM: MISS M P WALLACE

DATE: 16 November 1987

MR WYNN OWEN

cc Sir P Middleton

Mr Monck

Mr Gray

Mr Flanagan

**NEDC MEMBERSHIP**

The Chancellor has seen the draft answer and background note for Ms Richardson's question on selection criteria for NEDC membership. He thinks it unlikely that we would wish Sir B Nicholson's successor to be on NEDC, given the diminished status of the MSC (or whatever it is to be called). However, he thinks it worth considering whether there is anyone else we might consider inviting to take up that place.

*mpw*

MOIRA WALLACE





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REC.	18 NOV 1987
ACTION	Mr Wynne Owen
COPIES TO	Sir P Middleton
	Mr Anson
	Mr Monck
	Mr Bergerer
	Mr P Gray

Alex Allen Esq  
 Principal Private Secretary to  
 the Chancellor of the Exchequer  
 HM Treasury  
 Parliament Street  
 LONDON  
 SW1

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 run get)*

18 November 1987

b/f 3/12  
~~30/11~~  
~~27/11~~  
 to m.  
~~4/12~~  
 b/f 10/12  
 pmp

Dear Alex,

**NEDC MEMBERSHIP**

I have shown to my Secretary of State the letter of 29 September from DTI suggesting that Sir Bryan Nicholson's successor at the MSC should not be a member of NEDC. Mr Fowler feels that this would be a regrettable break with well-established practice. The presence of the MSC Chairman at NEDC has been essentially related to the MSC's role in upgrading the competence of the nation's work-force. That role is in no way being reduced - the organisational changes now under way are in fact designed inter alia to help MSC focus even more closely upon it; and the economic importance of the objective stands out, if anything, more and more plainly as time passes. To drop the MSC Chairman now would be a peculiarly inappropriate and untimely signal both to the organisation itself and more widely.

Mr Fowler recognises that it will be unnecessary given Sir James Munn's interim status as Chairman (and Sir Bryan Nicholson's continuing membership) to appoint Sir James; but he regards it as very important that the long-term successor - about the choice of whom we shall of course be consulting other Departments - should join the Council.

Yours,

Angela Wilkins

pp. **NICK WILSON**  
 Principal Private Secretary