Autumn Address

To spur, not to mould

Government and industry in the late 1980s

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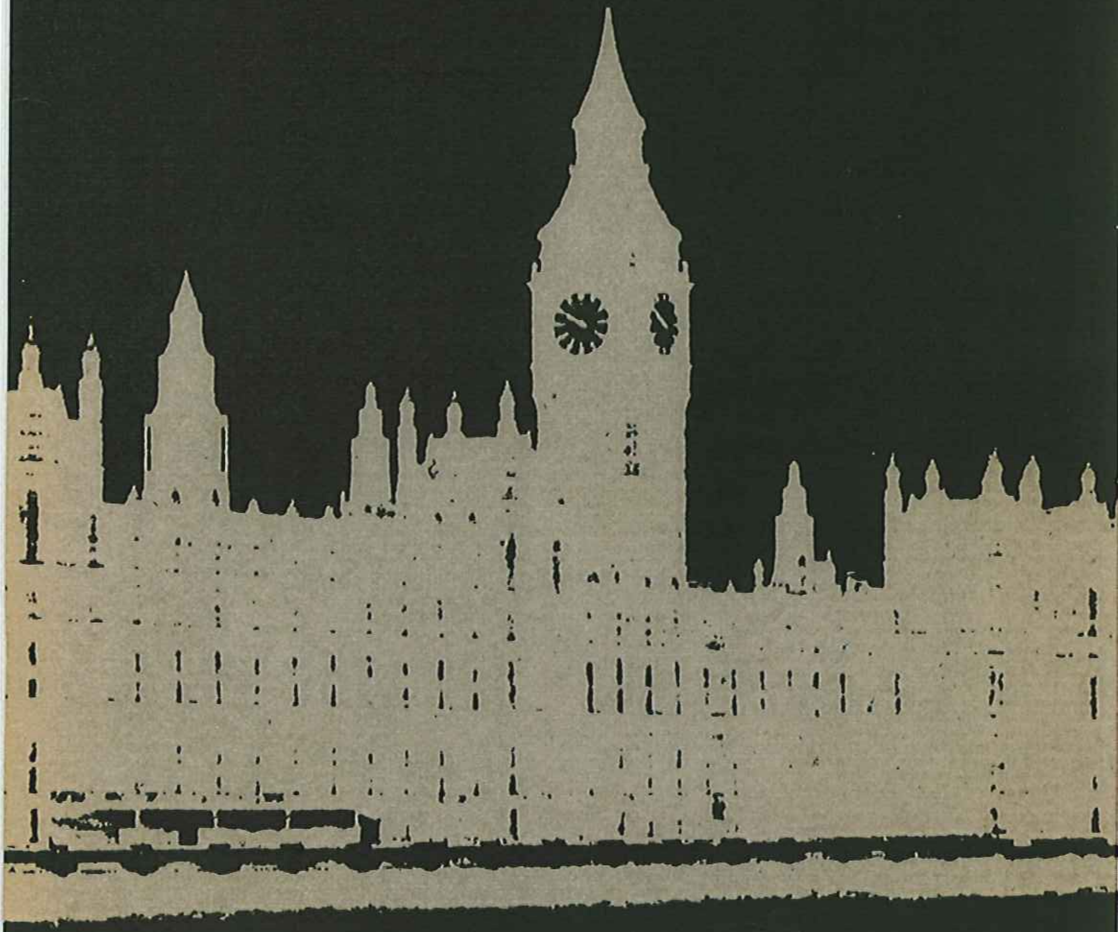

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To Spur, Not to Mould

For as long as I can remember concern about our economic progress, compared with that of our competitors, has been the staple diet of both politicians and commentators. For much of the time that concern has focused principally on macro-economic policy. Industrial policy, on the other hand, has been seen as the specialised preserve of ideologues and vested interests. But in the last year industrial policy has once again come right to the centre of the political stage. The controversies over Westland and Land Rover have been the *causes célèbres*. But there have also been much publicized and gloomy analyses of the state of our manufacturing industry from a number of eminent sources. This has inevitably led to renewed concern about the proper role of industrial policy and indeed repeated complaints that we have not now got one at all, and need one badly. This evening I want to consider that concern and examine those complaints.

Those who make such complaints do not always have a clear conception of what they mean by industrial policy. It can of course mean whatever you want it to mean, but if the debate is to be about substance rather than semantics it is best to start with some sort of broad definition. The definition can only be broad, because the distinction between industrial and economic policy cannot be absolutely clear-cut, and there is no point in pretending it is. But, in broad terms I regard economic policy as being that part of government policy which creates the climate in which industry as a whole operates, while industrial policy is designed to determine or influence the shape, location or principal features of industry, either generally or sector-by-sector or company-by-company.

It would of course be possible to adopt a policy so comprehensively interventionist that, for the individual businessman, the Government's industrial policy would be the paramount consideration, because it would dictate what he must do. That has been the case for a very long time in Communist countries, although in many of them there have been significant changes in recent years. But in this country, short of the full- scale adoption of the demands of the extreme Left, no conceivable industrial policy would have that effect. No doubt particular industries would be reconstructed in accordance with some corporatist consensus. And no doubt individual companies would be assisted, cajoled or bullied to do what they would otherwise not have done. But even if the Government responded to the pleas of some of its critics and sought to influence the future shape of British industry much more directly than at present, the past history of attempts to do so makes it quite clear to me that both the prospects for industry generally and the fate of most individual firms would still be affected far more by the Government's economic policy than by its industrial policy.

What is it after all that most businessmen believe most affects their future – apart from their own efforts and those of their competitors in such areas as employee relations, marketing and the development of technology? Surely factors such as these: what happens to interest rates, where the exchange rate stands, what the level and structure of taxation will be, and what progress is made in fighting inflation. All these directly influence a company's costs and opportunities, and are influenced by a Government's economic policies, rather than its industrial ones. A sharp change in the exchange rate or a dramatic alteration in the prospects for inflation is likely to have far more effect on most companies than the introduction or withdrawal of some scheme of assistance.

Indeed, even going beyond economic policy as it is normally understood, what most affects industry may still relate to other areas of government policy more than to its industrial policy. The balance and climate of industrial relations is obviously crucial for business, whether it is brought about by legislation or, for example, by the stance taken by the Government in support of the rule of law in the miners' dispute. To take another example, the shape of the Government's rate reform is likely to have more impact on industry as a whole than decisions about industrial support, however important they may be for particular firms.

Putting industrial policy in a proper perspective, however, does not mean that the Government should not have one. The nature of the relationship between government and industry in every country in the modern world, the sheer size of government, and its inevitable role as a customer, proprietor, regulator and tax-raiser makes it inconceivable that any Government should be without an industrial policy. Moreover, no Government can ignore the increasingly European dimension, both because of the part played in industrial policy by the European Commission and because of the market opportunities provided by the Community. Those who complain that the Government does not have an industrial policy usually mean either that they do not like the policy or that the many different features which are bound to be comprised in it have not been clearly articulated and composed in an intellectually coherent and consistent way.

Sometimes the complaint derives from the concern that I have referred to about the parlous state of manufacturing industry, and an assumption that this must in part be due to the lack of an industrial policy, and can be corrected only by the creation of one.

I would not for a single moment seek to brush aside that concern, but I do think it is important to assess with some care both its justification and the conclusions to be drawn from it. In the first place it is indeed the case that at the outset of the recession there was an extremely sharp contraction in manufacturing activity leading to a tragically high level of job losses and the closure of many plants that had been in operation for a very long time indeed. The sense of permanent loss, felt particularly in parts of the country such as the West Midlands and the North, is very real. The jolt was particularly sudden and dramatic. But at the same time we should not forget that the decline in the share of our economy taken by manufacturing industry has been going on for many years, and has been going on in most other Western countries, too, whose economies are generally regarded as more successful than our own. None the less, the change here has been greater in extent and far sharper in its impact.

Even so, the position since we began emerging from recession has altered radically. Since 1981 manufacturing output has grown by 11.5 per cent. Growth in manufacturing exports has been particularly notable, manufacturing investment has risen sharply, and manufacturing industry's productivity has improved by 30 per cent since the end of 1980. Most important of all, manufacturing profitability is now higher than at any time since 1973.

This does not mean that the future is now rosy for manufacturing industry, and indeed the picture this year has been disappointing, although the prospects for next year seem better. But great as the traumas of the past most certainly have been, the combination of the Government's economic and industrial policy (together with external factors) has led to manufacturing industry certainly being leaner, but, in terms of profitability and productivity, also fitter than it has been for some while.

What then of the future? Some of the anxieties which have been expressed relate specifically to the gradual decline in our oil production in the coming years. The vicissitudes of the last few months show how difficult it is to predict the impact of changes in oil prices on the economy. But the longer-term decline in North Sea oil production is quite a different matter in any economic calculation and must be taken into account. I am not myself persuaded that it will automatically result in a corresponding growth in other industrial sectors. Nor do I think that we should be indifferent to the balance between the manufacturing and service sectors of the economy. The service sector is, it is true, likely to grow faster than manufacturing industry. To a considerable extent this is because manufacturing employers sub-contract more and more of their activities – from cleaning and engineering maintenance to advertising and car-fleet management. None the less, the health of manufacturing industry will continue to be crucial to the economy. Just because the service industries are likely to grow faster, that does not mean that manufacturing industry cannot expand, and should not be encouraged to do so. But what we should be extremely wary of is any suggestion that there should be major general discrimination in favour of manufacturing industry, at the expense of the rest of the economy. It would be just as wrong to introduce a distortion of this kind as it is to take the view that the growth of the service sector means that manufacturing can be ignored.

In its industrial policy the Government must in my view take account of the different characteristics of the different sectors of the economy. As has been pointed out, for example, by Dr James McFarlane, the Director-General of the Engineering Employers' Federation, what is distinctive about much of manufacturing is the time-scale and the size and inflexibility of the investment involved, relative to market demand. That has to be reflected in government policy, in particular in the need for continuity in policy affecting manufacturing.

But being sensitive to the differing characteristics of different sectors of the economy and responding to each of them appropriately does not imply that the Government should take a view, for example, of what the size of a particular sector of industry should be, and try to bring that about. To recognise that different parts of the economy need different sorts of governmental involvement is no more than common sense. But it is utterly fallacious to conclude from that that the Government should construct a detailed model of what it thinks the different sectors of industry should be like in X years' time.

Nothing that has happened since George Brown formulated his National Plan leads me to believe that an attempt today to produce another one would be any more successful. That one was out of date before the ink was dry on it, and that would be even more likely to happen today, because the pace of events in today's world is much faster than in the 1960s. Nor does my experience of politicians and civil servants lead me to conclude that they are better able to pick winners than those who put their own money at stake. In the case of some forms of government assistance for industry, commercial judgements by politicians or civil servants are inevitable, but that is a very different matter from Government seeking to design and put into place the whole future pattern of industry.

Some who favour doing just this argue that it would be different if industry itself were involved from the outset, and pray in aid the Japanese Government's example as evidence of the success of a more grandiose industrial policy, in which MITI prepares and publicizes its 'visions' (as it calls them) of the future industrial structure of Japan, leading on to extensive discussion between Government, and industry and to a consensus about the directions in which the economy or individual industries should develop. A belief in the success of this approach has become part of the received wisdom among those attracted by a corporatist industrial policy. But, leaving aside the enormous cultural differences which make it most unwise to regard the Japanese approach as apt for emulation, the evidence of a causal relationship between Japanese industrial policy and Japanese economic success is highly challangeable. As David Savers recently pointed out in *The Financial Times,* four American economists who have studied the subject all concluded that Japanese industrial policy has had a negligible effect on industrial performance. Indeed, they considered that that policy had hindered progress in some cases, by hampering the activities of new companies like Sony, encouraging the growth of industries which proved unsuccessful, or protecting declining industries.

However much we may refuse to be seduced by a facile analysis of the Japanese example, that still leaves ample scope for a broadly based and coherent British industrial policy which should keep the most hyperactive Secretary of State fully stretched. In spite of all the qualifications I have given voice to, there is still both need and justification for a wide degree of governmental assistance and stimulation for industry on a limited but reasoned basis. In addition the Government has a crucial role as the continuing owner of the public sector and as the body responsible for the regulatory framework which governs matters such as competition and consumer protection. In both these capacities the Government's influence on the shape of British industry is substantial; and it is reasonable to expect that it should have a clear view as to how that influence is to be exerted – and that this should be consistent with the Government's other industrial and economic objectives.

When it comes to assisting industry, however well-defined and limited the criteria, the scope for spending money is always going to be open-ended. There can be no automatically operating way of deciding just how much to spend. Governments are, however, right to exercise restraint, even in expenditure to stimulate wealth creation. For we must never forget that the cost of providing such assistance can only come from taxes paid by firms which are successful *without* government assistance, and which should not be unduly weakened by requiring them to help finance support for firms whose success is necessarily uncertain.

If there is no touchstone for deciding the level of assistance in total, for what purpose should the available sums be spent? I shall not attempt a comprehensive list of circumstances in which governmental help is justified, but certain ones clearly make assistance appropriate. I have already mentioned the long time-scale of some industrial developments, and that is certainly a relevant factor for government to consider, as may be the sheer size of a development in relation to the industry undertaking it. This has been the rationale for the giving of launch aid for aerospace projects. But in every case it is essential to consider with a beady eye whether the capital markets, instead of governments, could finance what is proposed; and if not, why not.

Sometimes government assistance is given because a generalized deficiency across a whole industry or group of industries is identified. In such a case the grant of comparatively small sums of money, often for consultancy work, may have a disproportionate effect in drawing attention to what is lacking and remedying the deficiencies.

Another ground for assistance may be that a particular type of innovation will help not only the firm embarking on it, but have a catalytic effect across a whole sector of industry. Very different again is the type of intervention designed to encourage industry to set up in particular parts of the country.

The justification in all these cases is not that the Government, rather than the company concerned, is taking a commercial view of the project, but rather that the Government identifies obstacles or opportunities across a wide area of activity and by making financial assistance available, so reduces the cost of the project that the firm decides to undertake it.

Most of the schemes at present operated by the Department of Trade and Industry reflect this approach to helping industry. Those which support innovation are particularly good examples. They have had a profound effect in many areas of technology, the best known example perhaps being the part the Government has played in the promotion of information technology. By taking this into schools, as well as by supporting a rapidly changing industry, the Government greatly increased public awareness of information technology, and within quite a short period brought about a change of attitudes on a scale out of all proportion to the amount of money spent.

Less successful, frankly, has been the Government's attempt to increase and encourage the research that industry as a whole carries out. Indeed for some time now Governments have been struggling to bring about a rational distribution of the research conducted under the auspices of the various

Government departments themselves. It would be wholly unrealistic to pretend that we have yet got this right, or that we have ensured that government-sponsored research has the optimum industrial impact.

On the other hand, a good example of a generalized deficiency in the performance of industry which Government has helped to identify and rectify is that of industrial design, in the broadest meaning of the word. Both by providing a financial carrot through the Design Council and by stimulating interest in design through conferences and other promotional devices, the Government has at least begun to persuade industry to take seriously an aspect of production which in the past has, too often, been regarded as little more than a frill.

More difficult for Government to weigh is the case for intervention in cases where British industry alone cannot or will not undertake a particular project or development, and where only the Government can secure the international co-operation necessary to turn the feasible into the actual. The issue is further complicated when the Government has a separate interest as the major customer, which is usually the case in some defence projects. It then becomes particularly important to identify clearly the separate defence and industrial considerations. From the point of view of defence what matters is the ability to have a reliable supply of the equipment needed at a competitive price. Reliability of supply and cost may not always point in the same direction. But in the Westland situation there was no reason to believe that the armed forces would not be able to obtain suitable helicopters at a competitive price, whichever of the two solutions that were on offer was pursued. There was therefore no case for the Government to use its purchasing power to force through a particular solution on defence grounds. Nor was there any reason to do so on industrial grounds, as either of the solutions appeared to offer a viable future for the British helicopter industry. Quite different was the case of the European Fighter Aircraft. If that project had not been put together by international co-operation at government level we would have had only one option, the American one, for a fighter replacement, with all the disadvantages suffered by any customer *vis-a-vis* a monopoly supplier. Further, the decision to go ahead on a European basis for this project did mean British participation in a major new project which would otherwise not have taken place.

Where the Government is not a major customer, the argument for stimulating international collaboration is different. It may seem strange that failing government stimuli, huge and sophisticated companies in high-technology industries will not get together to do what they cannot do on their own. But the EUREKA programme has certainly led to projects emerging which had hitherto shown no sign of coming forward. Moreover the stimulus has not primarily been a financial one, for at least in the case of Britain the companies would almost certainly have got the same financial support if they had got together with their European partners on their own and then put forward to the Government the projects which they had begun to develop. But it does seem that even within Europe a Governmentally organized programme can inspire joint projects on a huge scale which would otherwise not have been developed. The EUREKA programme has already led to some 79 joint development projects coming forward, worth £1.4billion – 29 of them with British participation. These are mostly in computers, semiconductors and telecommunications, but they also include such varied ventures as industrial ceramics, the production of sunflower seeds and the diagnosis of sexually transmitted diseases. At least until there is a genuinely effective and complete common market within the European Community the promotion of projects such as EUREKA must surely be an important part of our industrial policy.

But, as I have said, as well as stimulating the private sector of industry the Government's policy towards the public sector has a major influence on the general state of industry, and thus helps to determine the future of a large part of the British economy. If the Government's industrial strategy should be designed not just to give a degree of financial assistance to industry, but also to make it more efficient, the process of privatisation plays an important part in achieving this. Its effect on improving the performance of Jaguar, to name but one example, needs no underlining. If the same effect is achieved in all the concerns that have been and are about to be privatised, this part of the Government's industrial policy will have done a very great deal to improve the performance of the British economy. In addition, the massive expansion of share ownership resulting from the privatisation programme is widening the base of capital ownership on a scale which is bound to have a long term effect on national attitudes. If share ownership is seen as a normal activity, not confined to a narrow social class, the impact on investment, on industrial relations, and therefore on industrial performance will be beneficial and profound.

But however fast the privatisation programme proceeds, for the foreseeable future a large public sector will continue to exist. The Government must have a clear policy towards that sector and cannot treat it simply as a tract of territory which privatisation has unfortunately not yet reached. Not that the Government *has* taken that attitude. This side of industrial policy has been developing steadily since 1979. The objective is easy enough to state: if you can't privatise it, make it more efficient. But how do you achieve this? The answer has been to impose disciplines on the state industries similar to those operating in the private sector and, for example, in the steel industry, to encourage the formation of joint ventures involving both the public and the private sectors. All this may seem an exercise in make-believe, but it has been surprisingly effective. By imposing hard financial targets and performance aims, coupled with a tight financial framework, the nationalized industries' demands on the taxpayer have been steadily reduced. Nor, contrary to popular belief, has this been achieved by excessive price increases. Taken together, nationalized industry prices have actually fallen by 2.6 per cent in real terms since May 1983.

These have been the successes in the Government's industrial policy in the public sector. But the BL/General Motors saga is an unhappy illustration of the pressures still existing – or perhaps recently emerging – which militate against sensible industrial policies in the field, pressures to which, sadly, the Government felt obliged to succumb. It was plainly in the national interest that there should be a viable truck industry in this country. Of course it would have been preferable for that industry to be entirely British-owned. But if the choice was between a viable concern, operating in Britain, to the benefit of the British people, but owned by GM, and a concern that would be constantly in jeopardy and a perpetual drain on the taxpayer, there can be no doubt that it was in the national interest to choose the viable route. The excess capacity for the manufacture of trucks meant that both Leyland and Bedford were losing vast sums of money, but if the two businesses had been put together, there was at least a fair prospect that they could provide this country with a viable truck industry. To insist that that opportunity should be rejected was a false kind of patriotism. It was to prefer to wave the flag rather than to look after the real industrial needs of the country and its people. Nor did the inclusion of Land Rover in the proposed deal alter the case. For Land Rover too had its problems, with shrinking markets in the Third World, intense competition, especially from Japan, no presence in the American market, and huge costs if its products were to be modernised and developed. GM would have been able to provide the funds for future development and a ready-made US market. I am not saying that this was the only possible solution for Land Rover, but the latest sad news about Bedford reinforces the view that unthinking short-sighted 'patriotism' is a dangerous guide to industrial policy.

In this area the Government was obliged to determine its policy in its capacity as the owner of BL, but of wider importance is the manner in which the Government carries out its task of determining and operating the rules within which industry as a whole operates. Nobody today doubts the need for a policy towards consumer protection, nor does anybody doubt the need for the Government to have a policy towards monopolies and mergers, and indeed towards competition more generally. In the latter case the Government can have a major influence on the shape of industry and the rate of change within it. Up to now in considering mergers the question of competition has been paramount. If the merger goes through, will it significantly reduce competition? That has been the dominant question. But in the last year voices have once again been asking whether other considerations should be given greater weight.

Even if a merger materially reduces competition within this country, should it not sometimes be allowed to go ahead, where the scale of operations in the industry is huge, in order to produce a 'national champion', an effective player on the world stage? I would not say that this argument never has validity, but I would very rarely be persuaded by it. The best players on the world stage are not always the biggest, and putting two companies together, with no effective domestic competition, is seldom a recipe for efficiency. The better answer may often be collaboration or merger with an European partner.

A more difficult question raised about present policy on mergers is the one most effectively put forward by David Walker of the Bank of England. Nobody would doubt that the risk of a takeover bid is a potent spur to inefficient management, and sometimes the bid itself is a uniquely effective way of replacing it. But nowadays, it is argued, the risk of a takeover is so great, even for the biggest company, that management is freed to take an excessively short-term view of the business, in order to produce half-yearly figures which will avert the predator. This process, it is argued, inhibits the long-term, stable growth of industry, and can have a major destabilizing effect, with no compensating advantage. Although some of the remedies suggested seem worse than the disease, this concern cannot be lightly dismissed, since it is felt widely, and not just by those who have a vested interest in a quiet life. This was one of the reasons why I decided that a review of competition policy was essential. I hope that this review will study carefully the evidence for the Walker thesis, and if persuaded of it, find a remedy which does not throw out the baby of competition with the bath water of its abuse.

In determining mergers policy, nine times out of ten the considerations are or ought to be strictly economic ones: which approach is likely to increase efficiency and wealth creation? But the rationale for regional industrial policy, which is undoubtedly an important aspect of the Government's industrial strategy, raises much wider issues. I make no secret of the fact that I would like its importance and centrality to be further enhanced, and I sought to begin that process in my speech to last year's Party Conference as Secretary of State. As I said in that speech, I regard the vast gulf between different parts of the country as being the greatest social and economic problem facing us as a nation. It is because I regard regional industrial policy as one of the crucial instruments to bridge that gulf that I feel passionately that we must never allow it to become the Cinderella of industrial policy. Not that regional industrial policy can in itself bridge the gulf. To do that requires a much more comprehensive approach. Whenever an economic or industrial decision of any magnitude is being made by Government, the impact of each of the possible options on the regional imbalance should always be at the centre of the Government's deliberations, even if it cannot always be the determining factor.

None the less, regional industrial policy in the narrower sense must be the major single tool in tackling the problem. In the 1960s attempts were made to advance a national economic case for regional policy, on the basis that total national output could increase if there was an effective regional policy. The basis for this contention was the belief that if the 'over-heating' in some parts of the country could be reduced by equalizing the levels of activity in the various parts of the country, the economy as a whole could be run at a faster pace, without the risk of stimulating inflation. Nowadays this approach to demand management is no longer in favour; and it would be difficult to make out a case, on these lines, with any conviction. I certainly would not attempt to do so. At best I would say that there is no evidence that the distortions which are by definition, a consequence of an effective regional policy, *reduce* the total level of activity.

The positive case for such a policy, however, that I would put forward is openly and unashamedly a social one. The gulf between the different parts of the country is not a crude one between North and South. It is, rather, between the older industrial areas, and the rest of the country. It just so happens that most of these areas, although by no means all of them, are in the North. None the less, the briefest visit to any such area makes the reality of that gulf all too evident. I have no doubt in my mind that the consequences of allowing it to widen would be socially, morally, economically and politically disastrous for the country as a whole.

If significant numbers of people were to be attracted away from the poorer regions, this would include a disproportionate number of the brightest and best, leaving behind an increasingly pauperized population, and an infrastructure that would become steadily more difficult and expensive to service. It cannot be right to allow that to happen.

Nor would such a process bring any compensating advantages to the more prosperous parts of the country. The environmental pressures in areas such as the South East are already so great that the social cost of further development at the expense of other parts of the country needs no underlining. Congestion on the M25 before it is even fully open, and the escalation of housing costs are but two examples of the consequences.

But however powerful the case for a strong regional policy may be, it is useless to have such a policy unless there is reason to believe that it would work, in the sense of bringing new employment-generating economic activity to the regions. Those who doubt the efficiency of regional policy point to the fact that after many years of this or that regional policy the discrepancies continue. In reality one could argue just as well that this only illustrates how much worse the position would have been if there had been no regional policies at all. Such a priori arguments cannot resolve the question, and it is better to look more objectively at the available evidence. The most recent and comprehensive study of the matter, sponsored by the DTI and carried out by economists from the Department of Land Economy at Cambridge, has recently come to the conclusion that a total of about 630,000 jobs have been created in the assisted areas by regional policy – a very substantial number indeed.

I would readily agree that some of those jobs cost more than was necessary. We can all think of examples: of projects that *had* to go ahead in a particular place if they were to go ahead at all, and would have done so without any assistance: of capital intensive projects which have ended up producing very few extra jobs indeed. That is why the Government was right to change the rules, in order to focus assistance more sharply on developments which actually produce more jobs.

It was also important to bring together in a more co-ordinated fashion the ways in which the DTI provides regional assistance and the Department of Environment helps urban areas. Improvement here, too, has been considerable.

But I believe that we must now take another major step forward, and give regional policy the priority which it needs and deserves. My personal experience of this question derives from representing a constituency in the North East; and given the magnitude of the problems and the proliferation of public bodies and Government Departments, each with different powers and functions, it is hardly surprising that the interest of many people should turn to the way in which these matters are handled north of the Border.

Scotland today is one of the more prosperous regions in the United Kingdom, benefitting from an industrial structure which is modernizing fast. The unemployment rate, previously the worst in the country, is now lower than in Northern Ireland, Wales and in three of the English regions.

There are, of course, many reasons for this, and the role of oil has hitherto been crucial. But it is difficult to avoid coming to the conclusion that the distinctively Scottish system of encouraging industrial development has been particularly effective. And the key feature of the Scottish system has been the existence of the Scottish Development Agency.

It would certainly be wrong to think that we can or should transplant Scottish institutions directly into the English regions. But discussing Scottish industrial development with those directly involved, and examining the latest report of the SDA, has led me to appreciate the value of the flexibility of the SDA and of the many-sided nature of its activity. It helps small businesses, it encourages rural development, it administers industrial estates, it improves derelict land, it supports technical innovation, it stimulates inward investment and it provides venture capital. Above all else, its flexibility enables it to look broadly at the Scottish scene and the means of regenerating places such as the most deprived parts of Glasgow. It has, for example, taken a lead in organizing such events as the Glasgow Garden Festival.

Those who have pointed to these successes have been told in the past that if you look at the various functions and powers of the SDA, and indeed of the Welsh Development Agency too, there is in almost every case a public body in the English regions able to fulfil a like role. This is true, and it is also true that co-operation between the various agencies in England is steadily increasing. None the less, the attractions of an agency able to tackle the problem in a unified and comprehensive way now seem to be very powerful.

But it is fair to ask why the attractions have not proved compelling up to now. The answer is that at the time when the SDA and WDA were set up there were genuine and justifiable anxieties that they would be engines for Bennite nationalization – at worst agents for state ownership, at best unacceptable and intrusive state intervention. The operation of the SDA and WDA today, however, shows how it has been possible to obviate these risks.

In the case of the SDA new guidelines were issued in 1980 which significantly altered the way in which it operated. For example, it was instructed to stimulate the provision of industrial premises by the private sector, either acting on its own or in conjunction with the SDA. The SDA itself was permitted to build only where private sector provision was deficient, and upon completion the Agency was required to dispose of premises and estates to the private sector. In addition limits were imposed on the extent to which development could be subsidized. When it came to industrial development, the delegated limit on total investment in a company was set at 50% of total funding for investments totalling more than £150,000. The Agency was required to dispose of shares at the earliest practicable time.

Perhaps even more important, the Government ensured that those in charge would be practical, responsible people who would run the SDA in a sensible and commercially sound manner. The fact that the SDA today is regarded as acceptable and indeed indispensable across all shades of the political spectrum in Scotland is a measure of its success in interpreting the new guidelines and avoiding the pitfalls feared by its critics in the early days.

Nor is it right in my view to say that the SDA and WDA are effective only because of the unique governmental arrangements in Scotland and Wales, with separate Secretaries of State. I see no reason why English regional development agencies should not come under the aegis of the DTI, which could readily deal with any problems requiring liaison or co-operation with other Governmental Departments. Setting up regional development agencies in England need not in any way necessitate the creation of Regional Ministers or regional elected authorities, neither of which I favour.

But I *am* now firmly of the view that the next step in the evolution of regional policy in England should be the setting up of development agencies comparable to the SDA and WDA in some of the English regions, in particular in the North East and the North West. Factors of confidence and psychology are crucial in the process of regional development, and an imaginative new step forward in this direction could help to create a regional focus which should stimulate industrial activity far more than the actual powers or levels of investment involved might lead one to expect.

I started this talk by stressing the limitations of what I would regard as sensible industrial policy, but I hope I have succeeded in persuading you that that still leaves more than enough for any Government to do. A Government that further reduces the size of the public sector and makes what is left more efficient; that gives stimulus and assistance to the private sector in the various ways I have described; that is alive to the problems of time scale and the international developments facing manufacturing industry; that recognizes its responsibility to have an effective and up-to-date competition policy; that follows an imaginative and creative regional policy – I do not think that such a Government can be said for a single moment to be lacking an industrial policy. It would, rather, be following one that was coherent and well founded in the realities of the problems of today. Admittedly – and rightly – it would not be seeking to dictate the precise industrial pattern of the future, nor designing a blue-print, even by means of some genial corporatist consensus. I am against such a blue-print not because of any dogma but because all the experience of the past, both in this country and elsewhere, suggests that this is simply not the best way of helping industry. What the Government must provide instead, as the title of this talk suggests, is a Spur, not a Mould, and it is an industrial policy of this character that I commend to the Party and to the country.

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