

British industry in a competitive world

The Governor makes the following points:⁽¹⁾

- *'The key role of profitability—for jobs now and for investment in the future. . . . Wealth is not generated without profit. . . . In other leading countries this has been more fully recognised.'*
- *'Wage settlements need to be significantly lower than in the present round. We need this, moreover, not as a last final effort after which we can let up. . . . Larger wage increases eroded by faster inflation may seem to be a more comfortable alternative. But they plainly do nothing for real wages and real prosperity.'*
- *The greater concentration of procurement decisions in this country has tended to help the strong supplier. 'But it may sometimes pay the buyer to help his weaker supplier. . . . Another approach is to attract overseas suppliers to establish in this country.'*

The process of industrial change and regeneration

I attach great importance to the role of industry in our society. I realise that some areas of the United Kingdom, where the industries which were the foundation of our earlier industrial greatness were situated, are faced with particular burdens of adjustment to radically changed conditions. Wales is such an area. It has had—and is still having—to cope with great changes in the scale and scope of the coal-mining and steel industries. I am therefore very pleased to be here under the auspices of the Development Corporation for Wales, which has a major role to play in facilitating that necessary process of industrial change and regeneration. Its concerns and objectives for industry in Wales are those which we all share for the British economy as a whole.

World markets have become extremely competitive. It is in all our interests that we have efficient industries: industries which can produce goods which the world wants and at prices, and in qualities, which are, as they once were, those of industrial leaders. In this we have, I think, begun to make new progress, and have no need to be defeatist, even though it is obvious that we still have a long way to go.

Let me begin, then, on the positive side. We now realise that, in the present world, to keep adding to industrial costs without corresponding increases in efficiency is a sure way to lose orders and lose jobs; and that higher money incomes that push up prices increase inflation but reduce well-being. We have seen a most encouraging fall in the rate of inflation—even though it remains too high for comfort. There have been equally encouraging gains in productivity; and these, together with greater realism in pay negotiations, have improved our ability to compete. I am sure that many of you have stories to tell of the better working climate—which is perhaps reflected in the figures for manufacturing

productivity for Wales, where the increases shown since 1979 seem especially good. The pace of business investment has also been well maintained, despite recession—which again is an encouraging sign.

But times remain very hard—as I hardly need tell you in Wales—and we cannot expect a significant general easing in the short term. It seems reasonable to expect that some upturn in demand will now begin to appear, even though it is unlikely initially to be strong, given the weak prospects in the rest of the world, including the United States. Despite progress already made, we cannot disregard the situation we had reached—with manufacturing output and employment both steeply down; with increased penetration of foreign manufactured goods into our home market, faster than that for any other developed country; and, despite very good export performance by many companies, with a fall in our share in overseas markets. We all know, therefore, that there is much more to be done if we are to regain prosperity.

Some have argued that our large endowment of oil, gas and coal makes us less concerned with manufacturing industry. This view is seriously misconceived. We have North Sea oil now, but are not prospering. Though important, it cannot offset serious weaknesses elsewhere. The oil and gas reserves are all too finite; and in the end we must rely on our talents as a people. We particularly need to engage the formidable potential of the young, which will wither and be tragically wasted unless we restore our full industrial strength.

As a nation, we cannot let industry go for a time and bring it back when North Sea reserves start to run down. In an increasingly uncertain world, there must be strategic importance in a balanced spread of economic activity and in maintaining training for skills and keeping abreast of advancing technology in a range of specialisations.

(1) In a speech at the Annual Dinner of the Development Corporation for Wales in Cardiff on 1 July.

The role of government

Given that industry remains vitally important, how extensive a role should government play? Some find in more or less selective government initiative the key to better industrial progress. Others give more weight to the actions and initiatives of those in industry itself. My own view inclines to the latter position. There is a tendency to expect from government more than it can deliver.

Government can ease the path. But it is rare for policy alone to stimulate development when the mainspring is not already in place. No industrial policy will assure satisfactory industrial performance unless the environment generally is supportive. We need above all a more widespread acknowledgement that industry and those who work in it are of central importance. This in turn requires positive acceptance of the key role of profitability—for jobs now and for investment in the future.

It is a plain fact that wealth is not generated without profit. In other leading countries this has been more fully recognised. As a result their people have become richer and better able to provide for themselves a rising standard of living.

Productivity and competitiveness

In our society, however, these connections are, I believe, not sufficiently widely perceived. While it is generally accepted that losses are wrong, profits are still for too many an ugly symbol of inequity and exploitation. In truth, in our economy today, the profit made by a firm is the nourishment for its progress. Without it all lose; with it all stand to gain. A vital task of management is to convince those on the shop floor that better profits will improve their security and ultimately their earnings; and the most effective means is demonstration in practice of how profits are put to good use.

Very useful gains in competitiveness have been made since the beginning of last year, importantly through increases in productivity and moderation in pay.

But that does not mean that we can now let go. In a world environment which has become tough and is likely to remain so, the countries that will be most successful in maintaining the jobs and real incomes of their people will be those who are most competitive. The need to hold or improve cost competitiveness is unrelenting and continuous.

I am perturbed by suggestions that we can now afford to let up in the next wage round or that workers cannot be expected to accept wage increases as moderate as last time. This is, I think, a misreading of what our situation is.

A rising standard of living is not ours by right. It has to be earned, by becoming steadily more efficient, and pricing our goods as cheaply as other countries do. This is very evident for individual firms. Workers have indeed seen how excessive wages can endanger the future of the firms they work in, and put at risk their own employment.

We are in fact about to enter a third wage round in which wage increases will have to be less than in the one before. How much can be afforded in the coming round will differ from firm to firm and industry to industry. But on average settlements clearly need to be significantly lower than in the present round. We need this, moreover, not as a last final effort after which we can then let up. The aim must be that wage increases should be in line with the increase in productivity—the only source of higher real income over time.

This may sound a hard message. Larger wage increases eroded by faster inflation may seem a more comfortable alternative. But they plainly do nothing for real wages and real prosperity. Moderation is common sense, not sacrifice: it is excess which involves sacrifice—of jobs.

But these are not the only factors affecting competitiveness and therefore the pace of import penetration. This leads some to ask for protective measures against imports. Profits, investment and jobs would all benefit, it is argued, if imported goods were kept out, or the pace of import penetration were checked by controls.

Such argument is seductive but dangerously misleading. Consumers would pay more and be offered less choice. Protection would reduce the competitive forces bearing on the inefficient producer much more than it stimulated the efficient, and retaliation abroad would cut down demand for our exports.

Others see assistance coming from a deliberately lower exchange rate, but that would be to risk re-igniting inflation—itself a great enemy of competitiveness.

Concentration of procurement decisions

Our relatively poor standard of efficiency in manufacturing in the past has encouraged the growth of imports. Paradoxically, however, the relatively high efficiency and concentration of retailing in this country may have speeded the process of turning to foreign suppliers. Our long tradition of comparative openness in trading has perhaps made British firms and consumers readier to shop abroad than their counterparts in some other countries.

Moreover, in both distribution and manufacturing, we probably have a greater horizontal concentration than in many other countries, so that procurement decisions are left in fewer hands. Such centralisation of procurement decisions—whether in retailing, nationalised industries or elsewhere—produces large benefits but also tends to accelerate the growth of the strong supplier and diminish the weak. Where the strong supplier is overseas, the process can lead to complete demise of our own capability in some product lines.

It is worth asking whether this is inevitable, and whether it may not sometimes pay the buyer to help his weak supplier. Decision-taking horizons on procurement are often shorter

than those necessary for a supplier to develop a new competitive edge. The need may be for time, patience and encouragement on the part of the buyer.

There are noteworthy examples in the procurement sponsorship of some of our major retailers, and of some of the nationalised industries; and there are no doubt other examples. I raise the question whether there is not opportunity for similar initiative in other cases. This could take the form of R and D support. It could mean not exploiting a strong buying position to squeeze profit margins unduly or to demand payment terms that place an undue financing burden on the supplier. It could mean drawing up a specification that would enable a supplier to exploit overseas markets with the same product, and help him in doing so. Or it could mean giving greater assurance of future orders, provided always that quality and price are fully competitive with other sources of supply.

Another approach to the problem is to attract the overseas suppliers to establish an operation in this country. This brings to the United Kingdom all kinds of benefits from foreign expertise and technology, as well as capital; and I would be remiss if I did not applaud in passing the energetic

and determined efforts of the Development Corporation for Wales to secure for the Principality those benefits of inward investment.

Our regard for industry

I have indicated to you why I believe that industry is important—meriting a higher standing than society gives it at present. I do not mean that dependence of industry on the state should increase. I have suggested rather than we need a greater awareness of industrial needs and an environment in which industrial achievement is more highly regarded, as it is by most of our competitors.

Latterly we have, I believe, seen more effective management and greater efficiency on all sides. If we can retain the gains achieved in the harsh days of recession, the suffering will prove to have been salutary and constructive. That will require continuing dedication and endeavour. But the prize of a sustained industrial recovery—in terms of incomes, activity, jobs and national self-esteem—is vast.

In recognition of what it has done, and in hope for its efforts ahead, I wish every success to the Development Corporation for Wales.