Lord Howell of Guildford .June 29th in the Lords.
(Con)
The Real Productivity Key: FDI and How to Restore it.

My Lords, we heard just now a very authoritative speech by my noble friend Lord Lamont about inflation, which, obviously, is much too high and is a real disease. I think personally that it will take more than one weapon—monetary policy from the Bank of England, right or wrong—to curb the present inflation. Falling global energy prices, as oil and gas are falling fast, will obviously help.

I will concentrate on something slightly different which is mentioned in the Motion and in the speech made by the noble Lord, Lord Eatwell: namely, the productivity puzzle. To my mind, the answer to it is rather simpler than some of the economists and experts would have us believe. Productivity comes from capital investment in machinery and technology. Louis Kelso, the pioneer of thinking in this area, 60 years ago destroyed the Marxian theory of labour value, making it completely redundant. However, he rightly pointed out that, although productivity and rewards come from capital and machinery, the rewards should go much more to workers and wage earners than they have and do now. That is a major problem we should all be facing.

I know the noble Lord, Lord Eatwell, rightly emphasised the investment element, but, with respect, he was looking slightly in the wrong direction. The state can obviously help and underpin, but it is pretty well short of money. Every state is short of money now. The famous phrase,

“I’m afraid there is no money”

came through to us 12 or 13 years ago, and it is not very different now. There is a shortage of state money for various obvious reasons we can talk about; they have heavy political context.

In our case, we should be thinking more about foreign investment funds and the way in which we can reattract those in a way we are not doing now. In the 1970s and 1980s, we achieved huge Japanese investment from the world’s second largest industrial power, as it was then; it is now third. That had a very definite effect on boosting productivity, not least because the Japanese insisted on firmly ending many of the trade union restrictive and demarcation practices which were holding back productivity drastically. In their new plants, they said, “We’re simply not going to have it. We must talk with one union leader, not dozens”, and they sorted all that out. We backed up that growing relationship with all sorts of innovative linkages, including the UK-Japan 20th century group, which our colleague Richard Needham persuaded Mrs Thatcher and Yasuhiro Nakasone to set up. I had the privilege of chairing it for 10 years, and that certainly helped the mood.

Japanese interest tailed off a bit after that as we entered this century, and it tailed off further after 2010 with the Cameron-Osborne pivot to China. The Japanese were enormously upset; there were almost tearful occasions when they felt that they had been virtually betrayed. That was bad enough but, when we got to Brexit, Japanese interest disappeared almost entirely. They simply could not understand why we had made that decision. They had invested here because it was a launching place to Europe but now suddenly we were going in the opposite direction.

Now, however, Japanese interest is returning. One example of that is the colossal defence project, the Tempest combat fighter, which I see helpfully promoted in advertisements in Westminster Underground station. With that come all sorts of Japanese links and ideas, developing a new relationship. Incidentally, I should declare an interest that I advise two large Japanese firms, Mitsubishi Electric and the Central Japan Railway Company, which runs the best and fastest Shinkansen system in the world.

I ask the Minister what we are doing to deepen relationships with Japan in an innovative way. They go well beyond trade links and beyond even investment incentives. Japan is our best friend in Asia, and Asia is where all the growth is going to be in the next 30 years. We need to be in on that, and Japan is going to be a great help.

How did we get that relationship in the first place? It was always claimed that the huge investment by Sony at Bridgend, which really started the flood of Japanese investment that came in in the 1970s and 1980s, was because Akio Marita had a son at Swansea University. Small things lead to big things. That is an example of all sorts of links, and universities are a part of that.

There is no scarcity of resources outside in the world. With respect, the noble Lord, Lord Eatwell, was looking in the wrong direction. There are billions, indeed trillions, waiting to invest in sovereign funds, pension funds and especially electricity infrastructure. That is the fact that we should now be dealing with.

There are many lessons to be learned from attracting FDI—or not attracting it now. When it returns, productivity will rise again. When other policies across the whole spectrum are regeared to attract FDI—from safe sources, of course—productivity will rise again, real wages will rise, trade deficits will shrink and real growth will resume, but not before we act in the ways that I have indicated.