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PRIME MINISTER

R&D PRIORITIES ACROSS GOVERNMENT

This is a disappointing Report about a lot of money - £4.4 billion of Government-funded R&D is planned for 1985-86. It focuses on the wrong problems. It fails to give practical examples. Its recommendation of a permanent Ministerial committee chaired by DTI - to second-guess the private sector is Heathite Corporatism.

There is no shortage of government-funded R&D in this country. In 1983, UK publicly-funded R&D was 1.33% of GDP, compared with 1.18% in the US, 1.14% in Germany and 1.40% in France.

The question the report needs to address is whether and why we are short of private sector R&D?

The real problems

The real questions on government-financed R&D, are:

- a. Are we getting value for money on R&D expenditure?  
Indeed, how can we make "value for money" in R&D an operational concept?

- How much of the expenditure on Nimrod has been R&D?



- What has been the rate of return on DTI's expenditure on launch-aid?
  - How can we justify expenditure on the fast-breeder reactor?
- b. Do companies reduce internally-financed R&D or change the nature of this R&D as they receive more funds from government?
- c. What is the hard evidence of benefits to the UK economy from DTI subsidies to individual firms?
- d. Why is it that technology to exploit North-Sea oil and gas was developed without huge government R&D, but that our electronic industries consider such help crucial?
- e. In a declining science budget, why is there so much spending on high energy physics, space research and astronomy?

### Defence R&D

The crucial exam question is how does defence R&D contribute to the economy?

The one piece of evidence which sticks out like a sore thumb is defence R&D in the UK compared to other countries.



Defence R&D as % of GDP (1982)

(Source OECD)

UK	France	Germany	US
0.65	0.46	0.11	0.76

There is a case for saving money by cutting defence R&D. This could positively benefit the economy as highly skilled manpower would then be released for private sector product development.

Alternatives to corporatism

The rest of the Report is full of worthy intentions to push more research into the private sector.

But how? They propose setting up a permanent Ministerial committee with official support. This is nothing but an interventionist philosophy of picking winners applied to R&D.

A more useful approach would be to distinguish between applied research done by the private sector and pure basic research funded publicly. This leads us to recommend that:

1. Defence R&D should be cut.
2. Tax incentives should be used to encourage innovation and commercial risk-taking in privately-funded R&D.

3. Accordingly, public funds for R&D should be directed away from applied commercial research and towards basic research and initial support for diffusing information about new technology.
  
4. For grant-aided university research, a market-responsive system should be developed whereby the brightest talent is drawn to the most fertile areas, at the same time attracting private venture capital and industrial support.

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