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FABIAN TRACT 309

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September, 1957.
ANY SURVEY of Britain's post-war economic history and policies divides itself automatically into two parts. In the twelve years since the war ended the responsibility for economic policy has been shouldered by two Governments, the Labour Government which was in power for just over six years, from 1945 - 51, and the Conservative Government, which has been in power since 1951.

First we must go back to the position at the end of the war. But to understand the 1945 position we have to go even further back, for the problems facing Labour in 1945 were not only those of a war-shattered world, but also the inheritance of a generation of economic stagnation in Britain. The 'twenties and 'thirties in Britain were marked by mass unemployment, by inadequate capital investment in our industries, by a loss of the world industrial leadership which had been Britain's unchallenged position for 150 years. Great industrial centres which had been founded on coal, steel and shipbuilding were derelict areas left high and dry by the receding tide of world trade. The cotton trade was in little better shape. Coal-mining areas were numb with trade depression, unemployment, and miserably inadequate wages, while the strife and poisoned relations caused by an effete, inefficient and harsh system of private ownership left a legacy which has not totally disappeared even today, ten years after the private owners were swept from the scene.

That Britain in the immediate pre-war period had no balance of payments problem is largely due to three factors. The first was abnormally favourable terms of trade. Because of depressed conditions in primary producing countries, import prices expressed in terms of the prices of Britain's exports were the lowest for a century past. Secondly, the demand for imports was severely limited by industrial depression and unemployment: idle factories need no raw materials; unemployed men and their families can afford only a minimum of imported food and of

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1 This pamphlet began as an article in the Grundfragenmoderner Wirtschaftspolitik which I was asked to write to describe for German readers various planning techniques which have been used in Britain since the war. I am indebted to the Editor of that journal for permission to use this material in this pamphlet. In addition, a certain part of the earlier record of Britain's immediate post-war position has been taken from 'In Place of Dollars' (Tribune Publications 1952) by permission of the Editor of Tribune.
such things as clothing which have a high import content. The third factor was Britain’s large holdings of overseas investments, accumulated before 1914, the income on which was sufficient to pay for three-fifths of our food imports, and a fifth of our total imports in 1938. Even so, with all these aids, Britain was not paying her way. In 1938 there was a deficit with the rest of the world of some £70 million.

Bankrupt Britain

Now we turn to the economic effects of the war. ‘Britain at the end of the war’, said Winston Churchill to the U.S. Secretary of the Treasury in 1943, ‘would be bankrupt, and the returning soldiers would have nothing to come home to’. Though this assessment of Britain’s economic position was conveniently forgotten in the years of Conservative anti-Government propaganda which followed 1945, it was abundantly correct. As the Treasury stated in the economic brief prepared for the Washington financial talks in 1945-6, Britain had in six years of war lost over a quarter of her total national capital, at home and abroad.

There was the loss of our gold and dollar reserves, used up to pay for food and munitions before Lend-Lease; there was the loss of our overseas investments in America, the Commonwealth and elsewhere, sold to pay for essential imports; there was the war damage to our factories, homes, railways, docks; there was the failure to make good the wear and tear of machinery overworked in war production.

Earnings on our overseas investments which, as I have said, paid before the war for a fifth of our imports, were sufficient ten years later to pay for only a twenty-fifth of a smaller volume. At the same time we had run up huge war debts abroad, through our expenditure on military operations in India, Egypt and other countries, as well as trade debts with Ireland, the Argentine and the Southern Dominions. So completely was our position transformed that, while in 1938 the rest of the world owed every man, woman and child in Britain an average of £80 per head, by 1945 each of us owed the rest of the world on the average, £20 per head. By 1951 this debt to the rest of the world had risen to £55 per head of the British population.

A World of Shortages

The change in world prices meant that from 1945 to 1951 we had to send more exports abroad to pay for our imports. A world of so-called agricultural surpluses had given place to a world of shortages; prices of raw materials and foodstuffs rose far more than the prices we could get for our exports. We needed to sell 130 tons of British exports to buy what 100 tons of exports would have bought before the war.

To pay for our minimum needs we had, therefore, to export far more abroad. But our export industries were in poor shape for the task. Some, such as coal and cotton, had been lame ducks before the war: war had damaged them still further.

At the same time we had lost the greater part of our overseas markets. Some had been overrun and devastated by enemy occupation. Some
had been lost through shortage of shipping. Far more had been lost through our concentration on the war at the expense of our solvency. Under the Lend-Lease arrangements with America, Britain concentrated on munitions production, on manning the armies and of acting as an advanced fighting base and aircraft carrier, while the United States took on the responsibility of providing the greater part of Britain’s imports of food and raw materials—and of looking after her export markets.

Another difficulty Britain was facing immediately after the war was the inability of many of her pre-war sources of supply, of both food and raw materials, to supply her needs. Many countries, both in Europe and Asia, had been devastated by the war. Hence not only Britain, but such Commonwealth countries as India, were driven into the dollar areas for essential supplies. Moreover, the terms of trade of the sterling area worsened in relation to the dollar area, particularly owing to the relative prices of rubber and gold; rubber prices increased far less than most other commodities, and gold remained pegged at the pre-war level.

**Earning Dollars**

But at the same time, it had become far more difficult to earn the dollars that were required. Before the war the sterling areas earned the greater part of its dollars by the sale of such primary products as wool, rubber, tin, sisal, cocoa, tea and jute. Many of the countries supplying these goods were unable to resume anything like pre-war exports for several years after the war.

This was Britain’s economic position in the summer of 1945. But almost immediately came a further shock. Within a few hours of the Japanese Armistice on 15th August 1945, President Truman announced the end of Lend-Lease. Britain was left with the need to pay for her dollar imports out of the proceeds of her shattered export trade.

To maintain the minimum flow of raw materials and foodstuffs, including the vast quantities of dollar wheat necessary to save India from famine, Britain had to negotiate a loan of $3,750 million which unfortunately carried with it certain burdensome conditions about non-discrimination and a premature return to convertibility.

**Labour’s Immense Task**

The Labour Government then turned to the immense task of expanding production and exports. This was a prodigious task. It called for the demobilisation of 4½ million men and women from the forces and the transfer of 3½ million workers from war production to peace work. But although this was carried through successfully and speedily, production was held back by serious shortages of raw materials.

It was not only imported materials that were scarce. Britain’s basic industries had been laid out in pre-war days on a scale related to the needs of a stagnant industrial economy, with two million unemployed. The capacity of the steel industry had been restricted to some ten to twelve million tons a year, when an expanding and efficient economy
would have needed something approaching twenty million. The chemical, cement and electricity industries, and those producing essential components for the engineering trade, were perhaps big enough to meet the limited demands of the stagnant pre-war economy, but they were far too small to meet the needs of post-war Britain, with full employment and with a tremendous programme of war damage reconstruction, capital investment, overseas development and increased exports.

So in an economic situation dominated by shortages of raw materials, factory capacity, and certain types of skilled labour, a great volume of resources had to be deployed on making good deficiencies in our basic industries dating back to pre-war days, while at the same time building the new export factories, the houses and the schools.

**Output Rises**

The problems facing Britain could not have been solved without, at home, increased production, internal planning and controls, including controls over imports, and abroad, increased exports, bilateral trading, bulk purchase, and a great expansion of our trade with the Commonwealth. Production increased in the five years from 1945 to a rate of more than 40 per cent. by volume above 1938. Without this increased output from industry and agriculture alike, we could never have raised our standard of living, and our exports, expanded our basic industries, and devoted a record proportion of our national income to capital investment in our industries and in the social fabric of the country.

And it needs to be remembered that, as is clear from a famous pronouncement of Lord McGowan, then Chairman of I.C.I., this industrial achievement would have been impossible if we had not nationalised the mines.

**Priorities**

It would have been impossible, too, without internal planning and controls, to put first things first, to give exports, industrial expansion, development area factories and housing a real priority at the expense of non-essentials. Import and foreign exchange control meant that our limited foreign exchange could be devoted in the main to essential foodstuffs, and the raw materials and capital equipment we needed for our recovery, instead of the fripperies and luxuries which uncontrolled private enterprise, seeking first for profits, would have brought in.

Increased exports enabled us to pay for more food and raw materials and to ship capital equipment abroad to speed the development of the Colonies and other parts of the Commonwealth. By 1948 the sum total of our overseas earnings was nearly enough to pay our accounts abroad including a continuing heavy drain on overseas military expenditure. In 1949 we actually had a surplus on our current accounts with the rest of the world, the first time in fifteen years, and this after the loss of a great part of our overseas investments.

Bilateral trading agreements enabled us to import urgently-needed food and raw materials from countries who were willing to take goods
in return — Danish food or Swedish timber for British coal and steel and textile yarns: Argentine beef and feeding-stuffs for coal, electrical apparatus, alkali and tinplate: Soviet grain and timber, in return for machinery, forestry and transport equipment from Britain, and wool, rubber and cocoa from the Commonwealth.

Bulk-purchase of our imported food and of certain raw materials was violently attacked by Tory politicians and commodity dealers. But an impartial United Nations Report fairly commented:

'The explanation of the relatively low prices paid by the United Kingdom for the imports of food and raw materials appears to lie largely in the extensive use which it has made of long-term contracts and bulk-purchase agreements covering a large proportion of its purchases.'

An important part of Labour's programme was the development of trade with the Commonwealth. Production of food-stuffs and certain raw materials such as cotton and tobacco was stimulated by some fifty separate long-term contracts. By 1949, 45 per cent. of all our imports came from the Commonwealth, compared with 36 per cent. in 1934-38; 51 per cent. of our exports went to Commonwealth markets, against 43 per cent. in pre-war days. By these means, both in food and raw materials, we made great strides in substituting Commonwealth sources of supply for the dollar areas.

An Uphill Struggle

While production, exports and investment were booming, Britain was still subject to recurrent financial difficulties. The premature restoration of convertibility in 1947 (combined with a big increase in American prices following de-control) led to a serious financial crisis in that year. Other European countries were in an equally desperate condition: by this time, however, the United States had recognised, as President Truman frankly admitted, that the cancellation of Lend-Lease was a 'blunder'. On neither economic nor political grounds could the United States stand aside and see Europe relapse into economic chaos. The American Government, therefore, came forward with the imaginative and timely scheme of help which became known as Marshall Aid.

In 1948 and the early part of 1949 we led Europe in the fight for recovery. Our production per head in 1949 was 18 per cent. above pre-war: only Socialist Sweden — which had not suffered our wartime losses — showed a similar figure. In agriculture we led Europe with an increase of 19 per cent. over pre-war production. In coal production we were the first country to get back to the pre-war output per manshift.

Yet we still were not paying our way in the United States, and were forced to intensify our dollar export drive, despite the obstacles provided by the American tariff barriers and the network of protective Customs regulations. By 1949 we were the only country in Western Europe paying for a higher proportion of our dollar expenditure by our own dollar earning than we had done before the war.
Devaluation

But in the spring of 1949 the whole basis of our recovery was knocked away by a slight recession in America. This was no slump, merely a minor recession in American economic activity, a period in which Americans were uneasy about the future, in which they wondered if raw materials prices were going to fall and so stopped buying. Our earnings from wool, rubber, tin, cocoa and other sterling area products fell to a half, and immediately we were once again facing a disastrous dollar crisis.

A run on sterling intensified by a public speech by the American Secretary to the Treasury, calling for devaluation of the pound, finally forced such a foreign exchange crisis that the pound had to be devalued.

Although this decision led to an increase in import costs and hence in the cost of living, the stimulus that was given to our exports, both to the dollar area and in many other markets, enabled Britain by 1950 to reach solvency in her overseas payments. Looking back on 1949 one might regard the devaluation of sterling as a realistic re-appraisal of the value of the pound in the post-war world, in contrast to the excessive value placed upon it in 1945.

The Korean War

In June 1950 the outbreak of the Korean war produced changes in Britain’s economic position. The rush to stockpile raw materials, on both private and Government account in the United States and elsewhere, forced up the demand for, and the price of, sterling area raw materials. Our dollar earnings boomed and our gold and dollar reserves reached the highest figure which has been achieved at any time since the war. At the same time higher world prices led to a startling increase in the cost of living in Britain. Price control, rationing, subsidies, the utility schemes and other techniques restrained the increase in the cost of living so that it rose much less than the increase in world prices would have justified; it rose much less also than in practically every other country for which statistics are available.

The Korean war had another serious economic effect on Britain. Under strong American pressure, the Government introduced an arms programme which aroused great controversy. Its critics felt that it would overstrain an already heavily burdened economy and would, in particular, prejudice the export drive and lead to renewed balance of payments difficulties.

But before these arguments could be put to the test, there was a change of Government. Labour had been returned to office in 1950 with the narrowest of majorities and in October 1951, the Labour Government felt that they could not face the enormous problems that lay ahead without a stronger parliamentary majority. In the Election that followed, with the post-Korean cost of living the major issue, the Conservatives, who lavishly promised to ‘mend the hole in the purse’ were returned with a small but working majority.
II. THE ECONOMICS OF CONSERVATISM

Almost immediately the Conservatives were faced with a new foreign exchange crisis. This was due, and solely due, to the collapse in raw material prices which in 1951 followed the realisation that Korea was not, after all, the prelude to World War III. Not only did sterling area raw material prices fall catastrophically, but there was almost complete cessation of buying in the over-stocked American market. Once again there was a grave run on sterling which did not end until American buying was resumed in the summer of 1952.

The new Conservative Government, despite its philosophy and promises, reacted to the crisis in ways which had been made familiar in 1947-49, by import controls and cuts in capital investment. At the same time, however, they revived the use of monetary weapons, both by making money tighter and by raising the bank rate for the first time since 1939. In their first budget, on 11th March 1952, the Chancellor of the Exchequer, Mr. Butler, cut the food subsidies which had been maintained since the war as a means of restraining the increase in food prices. Looking back on this decision, one may feel that at a time when world prices were falling, Mr. Butler threw away a golden opportunity of stabilising the cost of living; instead the increase in food prices which followed the removal of the subsidies gave a fresh twist to the wage-spiral.

Good Luck, Not Management

With the ending of the post-Korean crisis, Britain’s economic position became easier than at any time for a generation past. From 1952 the ‘terms of trade’ (i.e. the relation between import prices and export prices) swung sharply in favour of Britain. The improvement was worth some £500 - £600 million a year on Britain’s overall trade balance and represented a real saving in the resources that needed to be diverted overseas to pay for a given volume of imports. Yet this improvement in the terms of trade was not accompanied by any reduction in the American demand for sterling area products. World trade remained active and there was a continuing healthy demand for British exports. Moreover, as the world slowly recovered from the war, Britain’s normal sources of supply were able once again to play their part in relieving her dependence on the dollar area. Improving rice production in Asia, too, reduced the call of Commonwealth countries in that area upon the sterling area’s central reserves. The development of non-dollar sources of supply owed a great deal to the long-term contracts introduced by the Labour Government, now bearing fruit.

Similar developments were taking place at home. The Labour Government had subordinated housing and easier living conditions to the paramount necessity of building up capital investment, especially in exporting and import-saving industries. A big oil-refining industry had been developed which meant that instead of having to pay out hundreds of millions of dollars every year for imported petroleum, the country was able to earn vast sums in foreign exchange by petroleum exports.
Sulphuric acid plants, using non-dollar pyrites or native anhydrite, reduced our dependence on dollar sulphur, while a large carbon black factory rendered Britain largely independent of dollar imports. The rebuilding of the shipping fleet again helped to restore invisible earnings, while the expansion of agriculture to a rate of output 50 per cent. above pre-war, produced a big saving on imported food.

The period of Conservative economic stewardship divides itself naturally into three:

I. The easy years of 1952 - 4;
II. The crisis of 1955 - 6;
III. The post-Suez situation.

The Easy Years

The years from 1952 - 54 were marked by the rapid improvement in the terms of trade and by growing supplies at home and abroad. During these years the main fear overhanging the economy was of a possible recession in the United States. Remembering 1949 — and 1937 - 38 — it was often said that when America sneezed it meant double pneumonia for Britain and the sterling area. But no crisis developed in America: the slight recession in the winter of 1953 - 54 took place at a time when all inventories were low so that no problems developed in the sale of sterling area primary products. Moreover, heavy Russian sales of gold brought forth by improving east-west trade, helped to strengthen Britain's gold reserves.

The tragedy of these easy years lay in the failure to turn them to advantage. Production, which had fallen in 1952 for the first time since the war, recovered in 1953 - 54 but the increased national dividend resulting from this and from improved terms of trade went far too much into increased consumption and far too little into improved exports and investment. This was the period when improved supplies overseas, not to mention higher prices at home, enabled the Government to bring food rationing to an end; increasing production of consumer goods, especially 'consumer durables', refrigerators, automobiles, washing-machines, radio and television sets, all went to meet the requirements of a rapidly growing consumers' economy.

Exports were rising, but much more slowly than in 1945 - 51 and, more serious, much less quickly than those of Britain's main trading rivals. This was partly due to the pull of the booming home market, but partly due also to the removal of controls. In the motor-car industry, for example, a tight control on the proportion of output sold at home, and more latterly, a system of control which related steel sheet allocations to export performance, had led to record exports. The removal of these controls and excessive concentration on the easy home market, led to a reduction in the proportion of new cars exported from 77 per cent. in 1951 to 43 per cent. in 1955.

Capital investment and industrial re-equipment, while increasing rapidly in the publicly owned sector, stagnated in the private sector. What private investment did take place was to a considerable degree
undertaken by inessential industries and services primarily catering for home consumption.

Until 1952, the Conservatives had blamed inadequate capital investment on the shortage of finance in industry, but the growth of liquid reserves, due first to the fall in raw material prices and, secondly, generous tax concessions, still failed to bring about the required result. The Conservative Chancellor restored the initial allowance on industrial investment (in effect an interest free loan from the tax authorities to industry) which had been suspended in the Re-armament Budget of 1951. In 1954 he introduced a new device, the ‘investment allowance’ which in effect provided a direct subsidy to industrial building and equipment which had to compete with the housing drive. The Tory achievement of building well over 300,000 houses per annum, was electorally popular and socially desirable, but it placed a great strain on our economic resources.

These were the years when Britain should have been developing her basic industries, expanding them to meet the needs of investment at home and exports abroad. In 1950-55 Western Germany doubled her investment in manufacturing industry: in Britain such investment increased by an insignificant proportion — and much of that was in less essential industries. Taking investment in the metal industries, the most vital and dynamic sector of the economy, Western Germany showed an increase from 32 per cent. to 56 per cent. of total investment, while Britain with a much smaller absolute volume of total investment, showed an increase only from 36 per cent. to 42 per cent.

During this period there were also significant developments in Britain’s overseas economic policy. The liberalisation of West European trade (begun under the Labour Government) further advances towards convertibility of sterling, the opening of the gold bullion market, the replacement of bulk-buying by speculative commodity markets: all these led to greater freedom in trade and payments, but they made the economy more vulnerable to any crisis that might develop. Moreover, whereas in 1945-51 the proportion of our imports coming from the Commonwealth rose, while the proportion from the dollar areas fell, after 1951 the Commonwealth proportion fell, and the dollar proportion rose. The removal of controls on imports of manufactured goods in 1954-55 led to an increase in imports from the United States of 30 per cent. in a single year.

The Economic Crisis of 1955-56

The crisis was not long in coming. By the end of 1954 it had become clear that the boom was out of hand. At long last investment in the private sector boomed, largely it was thought as a result of the investment allowances and the rate of growth of the home market. The investment by manufacturing industry rose by 27 per cent.: within this total the paper and printing trades increased by 50 per cent. and the motor vehicle industry by 95 per cent. The main economic indices began to flash red danger signals: industrial vacancies far exceeded the numbers unemployed, while imports began rapidly to outpace exports.
By January 1955, the Chancellor himself was issuing warnings. In February a severe run on sterling caused him to raise the bank rate and to impose tighter restrictions on hire-purchase trading. At the same time he threw in the gold and dollar reserves of the Bank of England to strengthen transferable sterling. This was useful in that it stopped the costly 'commodity shunting' (under which Britain lost dollars through the purchase by foreigners of sterling area commodities with transferable sterling and their sale direct to the United States for dollars) but it introduced a system of 'back-door convertibility'.

Nevertheless, the effect of these measures was temporarily to strengthen international confidence in the pound and as Labour observers forecast, at the time, it enabled the Government to paper over the crisis long enough to have a snap election and win an increased majority on the legend of economic success. During the election campaign, Government spokesmen claimed that the crisis had been overcome and supported this claim with an election Budget which gave large tax concessions.

By July, rapidly rising imports unmatched by any corresponding increase in exports, led to a fresh crisis. The Government now called for a reduction in the capital investment which had, in their view, produced the crisis. They introduced swinging cuts in the investment programmes of publicly owned industry and the local authorities, but, having decontrolled the private sector, had to rely for any reductions in private investment on exhortations and the operation of higher interest rates and tighter money. This the Chancellor hoped to achieve by the 'credit squeeze' resulting from an instruction to the commercial banks to reduce their lending by 10 per cent.

In October the situation was no better and the Chancellor introduced an Autumn Budget which increased the rate of taxation on company profits and of practically the whole range of goods sold on the home market, including a number of household essentials not previously taxed. At the end of the year, Mr. Butler was replaced as Chancellor by Mr. Macmillan, who in turn, within a few weeks was faced by a fresh run on sterling and a new crisis. In February 1956, he again raised the bank rate—to the highest level there had been for a quarter of a century—tightened up the hire-purchase restrictions, made further cuts in the investment programmes of the public sector—and as a disincentive to the private sector, removed the investment allowance.

In April the Government's annual Economic Survey, frankly admitting that the past year had been one of highly favourable conditions, contained a gloomy account of Britain's economic position at home and overseas placing that on the sudden and unexpected increase in capital investment superimposed upon a buoyant level of consumer expenditure. In his Budget the Chancellor deliberately set out to damp down production: in 1956 as a whole industrial production fell, Britain's industrial stagnation contrasting unfavourably with the booming production of her main trading rivals.

During the spring and summer of 1956, the Chancellor set himself to fight inflation, partly by measures to stimulate saving, but also by appeals to the trade union movement to abstain from demands for increased
wages. He held out hopes of a ‘price plateau’ which he felt world economic conditions would now make possible. But since he was at the time forcing up internal prices by removing subsidies on milk and bread as well as on public authority housing, and since he was planning a decontrol in the rents of privately owned tenanted houses, the trade unions had little confidence in his ‘plateau’. In September the Trades Union Congress unanimously rejected the policy of ‘wage restraint’ which had been officially maintained by the trade union movement since 1939. Many observers at home and abroad regarded this as the prelude to further economic crises.

Suez

It was against this background that Britain’s economic position was dramatically worsened by events in the Middle East. Ever since President Nasser’s seizure of the Suez Canal in July, sterling had been weak on foreign exchange markets, weakest of all at times when the Government appeared likely to resort to military measures.

The Anglo-French invasion of Suez, together with the blocking of the Canal and the closing of the Iraq pipe-line created a new situation. The direct military costs of the venture were estimated by the Chancellor at £50 million, though, of course, the most serious fears were about the loss of oil and the effect on the dollar situation. (In the event, industrial production was maintained with the help of a mild winter and at the cost of very heavy oil purchases from America.) The four months from August to November showed a disastrous run on sterling which reduced Britain’s already depleted gold and dollar reserves by over 25 per cent. Devaluation talk was in the air and was only stopped by the Chancellor mobilising Britain’s ‘second line of reserves’ through the International Monetary Fund, by raising a big dollar loan, by requesting a waiver of interest payments on the American and Canadian loans, and by heavy advance payments by the German Government in respect of arms purchases and debt repayment.

III. BRITAIN’S ECONOMIC PROBLEM

This inevitably lengthy account of British economic policies since the war has been necessary in order to recall the different techniques and methods used by successive Governments in dealing with Britain’s continuing economic crises. In some quarters the contrasts between Labour and Conservative policies have been falsified for electoral purposes. The Conservatives have equated socialist policies with rationing, restrictions and shortages. The truth is, of course, that Labour was in power immediately after a disastrous war, while the period of Conservative rule has been from six to twelve years after the end of that war. The Conservatives, moreover, were able to enjoy the fruits of the Labour Government’s policy of restraint, austerity, controls and all the purposive concentration on production, investment, exports and dollar-saving. In
view of the failures of ‘Conservative Freedom’ in the vastly easier conditions of 1951-56, one has only to imagine the use of such policies immediately after 1945, to realise that the Labour Government saved Britain from total economic collapse.

Nevertheless, the experience of both types of approach enables us now to assess the techniques which will be necessary for dealing with what is a continuing economic problem for Britain.

Two-fold Problem

First we must define the nature of that problem. It is, in essence, two-fold: to pay her way abroad and indeed earn a surplus for the very necessary task of investing in underdeveloped areas abroad, particularly within the Commonwealth, and, secondly, to maintain full employment at home while fighting inflation.

This calls for maximum production (which in turn requires greatly increased investment) and secondly a policy of ensuring that the calls on the economy do not exceed the resources that can be made available.

This means that fiscal and financial policies must ensure that the total volume of consumption, export, investment and defence expenditure must be related to what can be made available from total production plus imports. Within that equation, exports must exceed imports in order to provide the required surplus for overseas investment. This formulation makes clear the special role of saving. Resources must be made available from current consumption to yield a total volume of saving equal to the volume of public and private investment which will be required, it being a matter for fiscal policy to decide to what extent the saving comes from private individuals and privately owned companies, on the one hand, or from the surplus of publicly owned industries or from a Government surplus achieved through an excess of tax revenue over Government expenditure, on the other hand.

Economic Statesmanship

But mere financial planning, even when expressed in terms of real resources, is not enough. There must also be a sufficiently purposive direction of the economy to ensure that the main requirements of the nation are met — particularly exports and capital investment. The test of economic statesmanship, over the next few years, lies in the ability of whatever Government is in power to transform Britain from a low investment economy to a high investment economy. The need for this has been underlined by the decision of all political parties in Britain to co-operate in the proposals for a European Free Trade Area. This will lead to an intensification of competition — particularly from Western Germany. If, during the years that will be required to bring the free trade area into being, Britain can achieve the status of a high investment economy, we have nothing to fear and perhaps everything to gain from freer trade. If Britain’s rate of investment remains inadequate, then we shall face economic collapse in any event; the free trade area will merely hasten the process.
Mr. Macmillan’s mobilisation of the country’s monetary reserves, during the Suez crisis, makes Britain in the long run even more vulnerable than she has been to a balance of payments crisis. But it should be effective in stopping all danger of devaluation for some time ahead. The question, therefore, is whether the disappearance of the devaluation danger will lull Britain into a false sense of security and encourage her to continue her policies of sacrificing economic strength to personal comfort or whether we shall not, now, seize this, our final opportunity, living as we are on borrowed money and borrowed time, to take all the measures necessary to make our economy strong and virile.

We must turn now to examine the specific techniques needed for controlling the economy. I list five of these:

1. physical controls;
2. monetary techniques;
3. positive incentives — subsidies, guaranteed orders, etc.;
4. fiscal weapons;
5. public ownership.

1. Physical Controls

Many of the controls used during the war, and by the Labour Government immediately after the war, are not applicable to present problems — especially the so-called ‘quota controls’. These were, in effect, a form of rationing scarce supplies based on a quota in some past period. The amount of a given raw material that particular firms could use, the quantities of some commodity that could be imported or even exported, the volume of goods that could be produced, were fixed at a given percentage, year by year, of a firm’s usage, import, export or production of the goods in question in 1938, 1942, or some other past period.

Such controls were essentially negative. They can stop activity but they cannot promote it. Even where they are selective, as in the case of building licensing, they can be used to restrain inessential investment, but they cannot be used to stimulate investment since that would involve the spending of the shareholders’ money.

Negative controls may have, nevertheless, some valuable purpose. They can be used, for example, by refusing building licences or ‘location certificates’ for the purpose of discouraging new industrial concentrations in congested areas and driving industry to underdeveloped parts of the country.

The most relevant ‘negative control’ which might be used in the present situation are building licensing, consumption/export controls and import licensing. Building licensing could have been used by the Conservative Government over the past two years to hold back inessential building, which would not only have been anti-inflationary, but would have reduced the strain on certain scarce resources, particularly steel and building labour. Consumption/export controls could have been used in the case of the motor-car industry as we have seen above, and could have forced
the industry to have been more export-minded, either by limiting the number or proportion of cars they could sell on the home market, or by restricting their supplies of dollar sheet steel, except in relation to export performance. Import licensing can, of course, be remarkably effective in reducing overseas payments, but to use them on any scale, not only in the face of Britain's recent overseas commercial policy, it would invite overseas retaliation against our exports.

While on the subject of physical controls reference should be made to two which have continued under the Conservative Government and have been much used in the past twelve months. One of these is a control over 'capital issues' which prevents private firms from borrowing money, either on the Stock Exchange, or elsewhere, beyond a given figure (now £10,000). This control bites effectively over parts of the economy, but firms with strong reserves can safely ignore it. The other control is over hire-purchase e.g. by prescribing the percentage of the ultimate purchase price which must be paid as a deposit when the goods are bought, or by limiting the period of repayment, or by a combination of the two. This control has been found to be highly effective in varying the volume of demand on particular consumer durable products.

One might also include under the heading of controls the whole wide subject of anti-monopoly legislation: both the Labour and Conservative Governments in this country have been very much concerned with this problem, but to describe the techniques used would go far beyond the subject of this pamphlet.

2. Monetary Techniques

It has been fairly said that if it is a good criticism of the Conservative Government that they have relied too greatly on monetary techniques and not made use of physical controls, then equally it might be said of the Labour Government of 1945 - 51, that we relied too much on physical controls and made too little use of the monetary weapon. One reason was that until very recently monetary controls were thought necessarily to involve high interest rates with all that means in terms of interest on national and local debt and on the distribution of wealth between different sections of the population. Moreover, high interest rates would have greatly increased the cost of the capital investment programmes of the newly nationalised industries and of such local authority services as housing.

Certainly it is true that the Conservatives, the arch-practitioners of monetary techniques, have regarded high interest rates as essential to their policies. Indeed, in 1955 - 56, it seemed as though monetary policy only seemed to work for some little time after the latest increase in bank rate, that the effects wore off like a drug and that a new impact could be made only by pushing up bank rate still further. Doubts about the effectiveness of traditional monetary weapons, at first confined to the Opposition, began to afflict even the pundits of the City Establishment, and a 'great debate' began in such journals as the Banker, and Lloyds Bank Review. It was these doubts that led the Chancellor, Mr.
Thorneycroft, in his Budget speech on 9th April, 1957, to announce that he was setting up a new Macmillan committee, under Lord Radcliffe, to examine the whole subject.

It must be clear that in any future attack on Britain's economic problems we shall need both physical controls and monetary weapons working together. But, whatever the Radcliffe Committee may hereafter report, the experience of the past two years suggests that this need not mean excessive interest rates. Indeed high interest rates in the post-war world have appeared to be ineffective—some argue because of high taxation, others because of the large volume of liquid Treasury Bills in the banking system, others because of a change in the relation of the money market to the Central Bank. However that may be, it would appear that vigorous action to control the credit base of the banking system, including controls on the holding of liquid resources, could be effective without calling in the additional sanction—and the heavy cost—of a high bank rate.1

3. Positive Incentives

These include subsidies, direct or indirect, and guaranteed markets. Post-war agricultural policy is based on the use of Treasury subsidies to provide guaranteed markets to encourage such activities as the development of hill farming on relatively unproductive land. In 1948, too, a direct subsidy was used to stimulate the re-equipment of the cotton spinning industry, but despite the unprecedented generosity of the grant, little came of it. The provision of factories at subsidised rents and of fixed and working capital on specially favourable terms has been one of the positive methods used to direct industry to the so-called development areas.

Subsidies, guarantees of loss, grants towards research, can also be used for developing given industries, particularly those needed to save dollars. The British aircraft industry has been very largely kept alive by Government orders especially for research and development purposes, the Government standing the loss if a particular type was not proceeded with.

1 Compare a speech by the present writer on the Second Reading of the 1956 Finance Bill 9th May, 1956, (Hansard, Parliamentary Debates, Vol. 552, cols. 1265-67) which summarised under the following eight heads the shortcomings of the Government's high interest-rate policy: (1) Increased Government expenditure (£150 million up on 1950-51); (2) increased balance of payments burdens (again £150 million across the exchanges); (3) frustration through beggar-my-neighbour policies as other countries followed our rates upwards; (4) the effect on the Commonwealth, particularly in driving Commonwealth countries to borrow abroad; (5) the loss of attractiveness and other financial business especially to New York, Zurich and Amsterdam; (6) the effect on social investment, housing—public and private—and on the finances of local authorities; (7) the effect on industry, especially the small man; and (8) the sheer ineffectiveness of the policy. See also the analysis of monetary techniques in the debate on inflation, 25th July, 1957, (Hansard, Parliamentary Debates, Vol. 574, cols. 633-35).
Sometimes where the Government felt that a particular industry should be expanded, but where the firm or firms in question were unwilling to take the risk of expansion, the Government has guaranteed to purchase any unsold products up to a certain figure. In the time of the Labour Government, for example, the Government was much more confident than the industry in question that a particular and costly form of earth-moving equipment was required on a scale far beyond the then capacity of the industry. When the Government finally undertook to buy any unsold units up to a given amount, the firm then went into production. When the undertaking came to be honoured, the firm had on its books several years’ orders for its products and the only help it asked of the Government was assistance in providing a vast new factory to enable it to increase production.

4. Fiscal Weapons

These operate from the use of taxation as a means of bringing the total demand on national resources into line with the available supplies, or of creating a volume of public saving adequate to meet the investment needs of the nation; the taxes can be used to influence economic activity industry by industry. Changes in purchase-tax have been made several times not only to increase the ‘disinflationary gap’ between tax revenue and Government expenditure, but also, selectively, to influence the demand for particular products such as motor-cars, radio and television sets and textiles. Investment and initial allowances, to which I have referred, seem to have had a powerful influence in controlling the rate of private investment. With one or two exceptions — shipping, fuel economy equipment, and the mining industries — they have not been used in a discriminatory manner. It is, however, the view of the Labour Opposition that they might be used to discriminate between ‘essential and less essential forms of investment’, either by different rates or by limiting the entire concession to specified industries or types of equipment.

The use of fiscal weapons for purposes of economic planning is to a considerable extent restricted by international economic treaties and conventions. They cannot be used, for example, directly to subsidise or encourage exports, a practice which has been outlawed by the General Agreement on Tariffs and Trade. Similarly, G.A.T.T. forbids the use of import duties, in so far as these have been made the subject of tariff negotiations or commercial agreements. The Utility Schemes in Britain, for example, under which a wide range of clothing and textiles made to agreed Government specifications, was subject to price control and also free of purchase-tax, ran into difficulties because of the provisions in G.A.T.T. which forbade the use of internal taxes to differentiate between home produced and imported goods.

5. Public Ownership

From the point of view of economic planning, public ownership provides a more effective control over industry than any other method. Not only can publicly owned industrial concerns be made immediately
RESPONSIVE TO ANY NEGATIVE FORM OF CONTROL: THEY CAN ALSO BE USED AS AN INSTRUMENT IN POSITIVE ECONOMIC PLANNING. FOR EXAMPLE, IN AN INDUSTRIAL RECESSION IT MAY BE DIFFICULT TO STIMULATE AN EXPANSION OF OUTPUT BY PRIVATE FIRMS, BUT PUBLIC ENTERPRISE CAN BE INDUCED TO INCREASE ITS RATE OF ACTIVITY AND PARTICULARLY OF CAPITAL INVESTMENT. THERE IS NO QUESTION OF SPENDING THE SHAREHOLDERS' MONEY AGAINST THE WISHES OF THE SHAREHOLDERS OR MANAGEMENT FOR, WITH PUBLIC ENTERPRISE, THE SHAREHOLDERS ARE THE NATION.

IN THE CASE OF SOME AT LEAST OF THE INDUSTRIES NATIONALISED BY THE LABOUR GOVERNMENT, THE PRINCIPAL MOTIVE LAY IN THE INEFFECTIVENESS OF THOSE INDUSTRIES UNDER PRIVATE OWNERSHIP: IN THE CASE OF COAL, EMBITTERED INDUSTRIAL RELATIONS PLAYED A BIG PART. UNWILLINGNESS OF BASIC INDUSTRIES TO EXPAND — IN SOME CASES INABILITY TO RAISE THE CAPITAL — PROVIDED ANOTHER REASON.

IN RECENT DISCUSSIONS OF FURTHER NATIONALISATION, THE RELEVANCE OF PUBLIC OWNERSHIP TO SOCIALIST DOCTRINES OF GREATER EQUALITY, IS BEING STRESSED. PERHAPS THE GREATEST FACTOR LEADING TO INEQUALITY IN THE DISTRIBUTION OF WEALTH IN MODERN BRITAIN IS THE APPRECIATION OF THE INDUSTRIAL EQUITY SHARE AS A RESULT OF INDUSTRIAL EXPANSION AND PROSPERITY. SUCH CAPITAL GAINS ARE, IN BRITAIN, TAX FREE AND A GREAT DEAL OF THOUGHT HAS BEEN GIVEN TO THE POSSIBILITY OF SECURING THESE GAINS FOR THE BENEFIT OF THE NATION.


DESPITE POLITICAL CRITICISMS, NATIONALISATION HAS HAD A very considerable success, as is shown by the decision of the Conservative Government to maintain under public ownership all the nationalised industries, except steel and part of the road haulage industry. I have already quoted the estimate of a prominent industrialist of what would have happened if coal had remained under private ownership. Nevertheless, ten years has been too short a period to erase all the bitterness and suspicion produced by generations of private ownership. Moreover, in an extractive industry, where the mines had been worked for generations past with an eye to quick profit, vast programmes of capital development are necessary even to maintain present levels of output.

1 For a further account see the Labour Party N.E.C. policy statement on nationalised industries, Public Enterprise, published in July, 1957.
Nationalisation of the railways has brought about considerable gains in efficiency of operation, but the history of the nationalised undertaking has been bedevilled by financial stringency. Whether under public or private ownership, British railways would, for the past few years, have faced financial crises because of road competition. The electricity industry has been a great success under public ownership; it has more than doubled generating capacity and has confined its price increases to a level considerably less than would be justified by increases in the cost of coal and other factors of production. Nationalisation has meant also, in this industry, a great extension of rural electrification. During the period of public ownership of steel, a great expansion programme was carried through; the benefits accruing to the nation: since denationalisation the very considerable gains have accrued to private shareholders.

Nevertheless, against the undoubted success of nationalisation on the one hand, there are problems still to be solved, notably pricing policy, the financial problem — particularly the role of state guaranteed compensation stock — parliamentary accountability and above all the position of the workers in the industries concerned who, in many cases, have not yet been able to feel that they are now working for the community rather than for private owners. These problems have been discussed in the Labour Party’s Public Enterprise referred to above.

One reason for the inability of labour in some nationalised industries to get this sense of working for the community is the fact that they are working for huge, and to them remote, public corporations. This is one of a number of reasons why recent socialist thought about the future of nationalisation is turning away from the idea of creating new ‘monolithic’ industry-wide corporations towards support for the idea of taking over the equity shares in a number of given industrial firms, leaving the management to continue as a going concern. As has been said, this would ensure to the community the capital gains resulting from industrial expansion. It would also ensure that when state policy required an increase in capacity or a programme of re-equipment, such as a conservative minded management was unwilling to introduce, then such programmes could be carried through at the instance of the shareholders, i.e. the state. In exceptional cases, where management was inefficient, the state could use its power as sole shareholder to secure management changes. The relevance of policies of this kind to the problem of dealing with monopolies is obvious: in general if an industry, on technical grounds or through historical development, has passed into monopolistic control, there is the strongest argument for that monopoly to be exercised publicly rather than privately.¹

It can be seen, too, that a greater power of state control over some of the key firms in Britain will add to its power of planning the sector

which remains in private hands. For example, if firms producing key machine tools or vital components, such as ball-bearings or electric motors, were under more direct state control, the state could influence the pattern of industrial development by its control over the allocation of these key items.

IV. FIRST THINGS FIRST

Our survey of the economic history of Britain over the past eleven years lead to one inescapable conclusion. A solution of Britain's economic problems will require a co-ordinated use of the techniques I have described. Obviously the greater the degree of public ownership, the less will be the need for special and perhaps devious means of controlling the private sector. The extent to which public ownership is applied is, of course, one of the main differences between the Conservative and Labour Parties.

But the analysis of the foregoing pages shows another big difference between them. The Conservative approach is in the main a global one, making no distinction between essential and inessential industry. In their philosophy the Government can only encourage capital investment as a whole — or discourage it. When the policy is one of expansion, as we saw in 1954 - 55, inessential investments boom to the point where the Government is forced to take action by monetary and other means to cut back production and discourage investment. When this happens, both essential and inessential investment suffer: indeed essential investment may suffer the most. In practice, because the public sector is the only plannable area within the economy, we have seen essential investment in the public sector deliberately held back, while vast areas of inessential private investment are allowed to continue. Apart from this perverse system of discrimination against the public sector, the only discrimination recognised by a Conservative Government is the use of the capital issues control and of hire-purchase restrictions. For the rest, a credit squeeze means that it is the unfortunate local bank manager who has to take the decisions affecting the development policies of individual firms; but the criteria applied by bank managers are more likely to be related to credit-worthiness than to essentiality in the national interest. Moreover, their field of operation is limited only to those — mainly smaller industrial and trading concerns— who require bank overdrafts: powerful groups such as the oil companies can finance investment, whether essential or inessential, out of reserves.

Perhaps the most glaring example of the Conservative approach could be seen in 1955 - 56 when essential investment was being held up, particularly in the public sector, when small businesses were suffering acutely under the credit squeeze — but when the oil distributing companies were able to build vast numbers of quite inessential garages and
petrol stations along the highroads of Britain to cash in on the profits of the boom in private motoring.

The final commentary on Tory economic policies has recently been made by the Chancellor of the Exchequer, Mr. Thorneycroft, who blamed the 1956-57 inflation on the failure of production to rise at a time when incomes were rising. Yet the damping down of production was Mr. Macmillan's policy. In fact, year after year, under the Conservatives, we have seen Britain at or near the foot of the European production league, while we were at the top of the cost of living tables. (Under Labour these roles were reversed.) Thus, as Mr. Thorneycroft now recognises, industrial stagnation is not, as so many have argued, a cure for inflation.

**What is Essential**

Labour's attitude to production and investment is entirely different. To the socialist the test is not 'Is this investment public or private?' but 'How essential is it?'. When the economic condition of the country demands retrenchment, inessential investment — indeed inessential production — needs to be held back, irrespective of whether the activities in question are publicly or privately owned. But this approach — and this is why it is rejected by the Conservatives — requires the use of selective controls such as building licensing. This does not mean, as Conservative propaganda sometimes suggests, that under Socialist controls the country is regimented while under Conservatism it is free. Under Labour policy, while monetary measures would play their full part, the ultimate decisions about investment would be taken by state servants under the direction of Ministers responsible to Parliament — not by bank managers burdened with an invidious task for which they have not been trained.

Labour's approach, therefore, unlike that of the Conservatives is that, when retrenchment is required, we should not hold back the whole economy: we should hold back the inessential in order to give the green light to essential projects which would then have the first call on scarce resources. Indeed Labour's approach is to go further and give positive encouragement to those industries and undertakings which need to be expanded in the national interest by differential tax incentives, by capital assistance and in other ways. Where, on the other hand — as both Parties agreed was the case in 1954 — the country needs a rapid increase in investment, positive action to stimulate the expansion of essential industries comes first: the inessential are left to scramble for what resources remain over. One contribution to this might come from the use of differential interest rates: the Government's borrowing powers, perhaps assisted by the revival of Treasury Deposit Receipts, might be used to enable essential public purposes to be financed at a lower rate of interest, the private sector being left to borrow at market rates.

I have argued above that Britain's economic future — indeed her survival as an industrial power — depends upon a clear and courageous Government decision to give industrial investment first priority over
all other claims on our national resources, save export. But a Government decision is not of itself enough: he who wills the end must will the means. It is for that reason that the Labour Party in Britain believes that our industrial future depends on a rejection of present Government policies and their replacement by methods and techniques which will, in the next few vital years, as in the difficult years after 1945, put first things first.
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