fabian tract 378
is Britain viable?

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this pamphlet, like all publications of the Fabian Society, represents not the collective view of the Society but only the view of the individual who prepared it. The responsibility of the Society is limited to approving the publications which it issues as worthy of consideration within the Labour movement. Fabian Society, 11 Dartmouth Street, London SW1. December 1967
"What would be the use, if people were to say: 'The British are nice people, but they haven't got any money'?" The quotation is from the late Per Jacobsson, former director of the International Monetary Fund, during one of the many sterling crises of the late-fifties and early-sixties. It is the authentic voice—detached, not vindictive, realistic, yet profoundly unsympathetic to all that the Labour movement stands for—of what is probably the most exclusive and powerful in-group in the world today: the international banker. It is this group which today, after three years of Labour Government, effectively controls the destinies of this country, perhaps to a greater extent than at any time since the early-thirties.

What I want to discuss are not the social and political objectives of the Labour Government, but the means by which they can be achieved. My theme is the question whether we can summon the economic strength to realise these objectives, whether and by what means we can acquire the room for manoeuvre to carry out the policies for improving the quality of life in these islands and beyond which we all want. If this enquiry falls short of being inspiring, I think it will be agreed that it is rather basic. For if there is one thing on which almost all commentators on this Government's performance are agreed, it is that the main weakness so far has been in the field of central economic management. And it is clear that this failure is bedevilling—as we "growthmen" always said it would—progress in almost all other major fields of policy.

To begin with, the fact that we are in deep debt to the successors and contemporaries of Per Jacobsson means that our economic policies are subject to a stricter degree of international surveillance than any other major industrial nation has had to face. This surveillance extends to issues which one would have thought were of purely parochial interest, such as the extent to which we choose to finance health prescriptions or nationalised industry charges out of the pocket of the taxpayer or the consumer. Those who exercise the surveillance are not always as well-informed as they should be about our national accounting conventions or about the comparative services provided by our and other nations' welfare states. It is easy to say, as some on the left say, that we should therefore ignore their advice, and tell our creditors to jump in the English Channel. But this is somewhat difficult for a country which relies on imports to feed its people and to provide the raw materials for its industry. And if you are dependent on your neighbour to loan you the money for your next meal, you can hardly complain if he also insists on advising you how to spend it.

In any case, the most fundamental restraints on our freedom of manoeuvre are not imposed by our creditors but by the facts. We all know that if we are to raise living standards in these islands to an acceptable level, if we are to undertake the basic investment in education, communications, technology and so on which we need to make Britain a competitive country in the second half of the twentieth century, we need to spend a lot more money. Where is that money to come from? Clearly it will not all come, on present policies, out of the fruits of industrial expansion. It will come, if it comes, only out of a further increase in tax levels which are already, in many areas, too high. There is a vicious circle here. High tax rates depress consumer demand and remove from industry both the incentive and the resources to undertake new investment. So Government has to step in with new incentives—
whether by investment grants or by the more direct measures envisaged in the proposed Industrial Expansion Bill—
to fill the gap. But to raise the money for these new incentives Government
has to increase taxes further; and so the cycle goes on. It is not too hard to
foresee a situation in which a stagnant economy requires a continuously in-
creasing public sector to remedy the defects of private enterprise, while this
very increase intensifies the stagnation it is designed to correct. We have, it
seems to me, gone a little too far along this road already for comfort. What we
have proved, it seems to me, in the last three years is not that socialism is
necessarily better than conservatism in getting growth; I believe it is, but we have
yet to prove it. What we have proved, I think, is that socialism knows how
to make a stagnant economy more tolerable than conservatism: because,
with its greater instinct for social justice, it has been able to do more than the
Conservatives to shield the worst hit members of the community from the
effects of our economic failure—by redundancy payments, increased pen-
sions, special help to development areas and so on. This is something, but to me
it is emphatically not enough. I did not vote for Harold Wilson in 1964 because
I thought he was the man most likely to persuade the British to stop worrying
and love the squeeze.

It is of course quite unfair to blame this Government for failing in three
years to solve a problem which has dogged every British Government for
nearly half-a-century; namely how to expand the economy as fast as its com-
petitors while maintaining a stable balance of payments. It is hardly dis-
puted that in the last nine years of the Conservative administration, after the
collapse of the 1955 boom, our position steadily worsened; our growth rate
began to fall further behind our com-
2. the existing constraints

What are the underlying factors which make Britain's economic problems so intractable, whatever policies we pursue? Is our problem more complex than other peoples', or are we just worse at solving it? Let me say first of all that I do not believe that the British are less gifted than other people, or less hard-working. I see no evidence, either from history or from my own travels around the world, to support either of these propositions. Nor have I seen any evidence to support the view that we have all been corrupted by the Welfare State and full employment. If we were, then it is odd that the corruption should not have extended to all those other nations, including most of our main competitors, who have at least as lavish standards of welfare benefits as we have (which is not in fact saying very much) and on average rather higher levels of employment. I do think we are behind some of our competitors at getting value from our efforts, through institutional rigidities (for example, trade union demarcation) and through a lack of expertise in managing large organisations (one of the most fundamental differences, I think, between British and American industry).

If we are to rule out national character, are there any other general explanations for our failure? I think we can rule out Government economic policies as a main cause, though these have in many cases undoubtedly been a secondary factor worsening an already bad situation. I do not support the sweeping criticisms made by Max Nicholson recently of "The System," which attributes almost everything that has gone wrong in Britain in the last century to the machinations of the Higher Civil Service, recruited along lines laid down by Jowett of Balliol in a deep-laid plot to prevent democratic institutions taking hold in Britain after the Second Reform Bill. Addicted as I am to the conspiracy theory of history, I find this a little hard to accept.

I would not wish to be misunderstood. There is a lot wrong with our civil service, with "The System" generally, and with the economic policies pursued by postwar governments. I shall be spelling these out in greater detail, with suggested remedies, later on. But I cannot accept that our national affairs have been conducted so much worse than all our competitors as to account fully for the gap in performance, without looking for other explanations.

What other explanations? If one tries to analyse what is unique about the British situation, there are three related factors which do set us apart from our competitors and which spring from a common cause. That cause is the historical phenomenon that in the nineteenth century, when the pattern of the modern industrial world was established, this tiny island—limited in population and natural resources—was, nevertheless, through a strange combination of factors, the centre of world finance, industry and political power. I believe a large part of our problems, certainly in the last two decades and perhaps further back too, spring from this disproportion between our commitments and our native resources, and the enormous difficulty of disengaging ourselves from a role to which we are no longer fitted. I believe that we have in fact made more progress in this very necessary task of readaptation in the last three years than is generally recognised.

east of Suez

What are these three related factors to which I've referred? First, and most obvious, is what is called for shorthand
purposes our "East-of-Suez" role. Because of our imperial legacy, and the large Commonwealth presence in South Asia and the Pacific, we have very heavy defence commitments in this part of the world which none of our competitors outside the United States has. This is an obvious burden on our balance of payments, quite disproportionate to our resources or to the commitments of our non-American allies in the area, such as Australia. We are in fact liquidating these commitments about as fast as circumstances permit. I judge that by, say, 1975 we will to all intents and purposes have stopped being in any sense a world power and become instead a European one—the transition which France has successfully made, behind a Gaullist smokescreen which suggests that she is trying to do the exact opposite.

Commonwealth trade

Second, our trade effort has very naturally been geared traditionally to the Commonwealth. In the early post-war years the Commonwealth took more than two-thirds of all our exports. It was in many ways an ideal export market, in the sense that it could be regarded in effect like an extension of the home market. Many of the customers were in fact British officials, at least in the colonies. English was the lingua franca, and English standards, measurements and methods were the norm throughout the area. It was in large measure a captive market; and that was part of the trouble. As the colonies became independent, there was a growing tendency to diversify sources of supply at Britain's expense. Moreover, for a variety of reasons in the postwar world the Commonwealth as a whole has been a slow-growing market. As a result of these two factors, British industry has had to make a sustained effort to switch its emphasis to the faster-growing markets, particularly Western Europe and the United States. We have not been unsuccessful in this. Today Western Europe takes about 40 per cent of our exports (against 20 per cent in the early postwar years), while the Commonwealth share has dropped to under one-third. But the effort has not been painless, as one may gather from all the stories about poor British salesmanship which one picks up around the world. Europe and North America are much tougher, more demanding, more sophisticated, more competitive markets than the old Commonwealth. Regrettably the natives do not always speak English or express their needs in British weights and measures. Often their standards and tastes are different. It has been a hard process of adaptation, and on the whole we haven't done too badly.

But our main problem in this area is of course our exclusion from the biggest European trading unit, the EEC. I don't want to go too deeply into the details of the Common Market controversy except to say this. I believe the logic of our position in the world requires us to be a European power, rather than a global power or a Switzerland or Sweden. I do not see how we can be an effective European power, in the political sense, outside the Common Market; nor would I care to speculate too deeply on the likely long-term political development in the EEC if we are excluded. Also, I believe it would be very damaging to our long-term industrial growth and competitiveness to be excluded from this great natural market on our doorstep. Without this market we are much less attractive to outside investment, notably from the US, and our more dynamic and successful industries will lack the opportunity to exploit the full economies of large-scale production and marketing—and,
in the increasingly important case of the science-based, high-technology industries, of large-scale research and development. I think it is worth paying a high price to avoid this handicap. As it is, even with EFTA we are today the one major industrial power with a home market of less than 100 million people, and I find this an unattractive prospect.

I have discussed so far two legacies of our imperial heyday which have bedevilled us: our defence commitments east of Suez and our excessively Commonwealth-oriented exports. I might also mention, though I don’t class it on the same level as these two, our traditional tendency, partly as a result of the well-developed institutions of the City of London, to invest our capital overseas, particularly in the Commonwealth, rather than in Britain. The Labour Government has rightly imposed restraints on this overseas investment at a time when we are having to borrow large amounts abroad in order to balance our payments. In doing so it has incurred a good deal of enmity from industry, the City and—at least under its former governor—the Bank of England, despite the broad endorsement it has had from the Independent Reddaway Report.

**sterling**

However, the third and in many ways the most intractable legacy from the nineteenth century is the survival of the pound sterling as a world reserve currency, or, to put it another way, the fact that Britain finds herself in the involuntary role of banker to the world. If a man from Mars were to appear on earth and enquire how the nations conducted their international financial transactions, he would I think be somewhat surprised to learn that the two world bankers were not the two strongest in terms of reserves, gross national product or what you will, but the strongest (the US), and a country (ourselves) ranking sixth in world production—and a good deal below that in the level of financial reserves. He would perhaps find it easier to understand if he were told that when the system evolved, since it was never formally invented or decided upon, this second country was, by a strange chance, the centre of world capital and a great political and industrial power. But he would still, I think, be puzzled at the slowness of human reactions to changed circumstances when designing their institutions, and would write us earthmen off as an incompetent and tradition-bound species.

What the sterling system means, in a nutshell, is that we as a nation act like a joint-stock banker. Like any other banker, our short-term liabilities (customers’ deposits) are much greater than our short-term assets (our gold and dollar reserves). The essence of successful banking is that, because the customer has confidence that the banker will be able to let him have his money back whenever he wants it, he does not in fact demand it. When people do lose confidence, and demand their money back in large numbers, banks have a disturbing tendency to go bankrupt.

We are in the position of a banker whose customers do tend to lose confidence rather often, with regrettable results. In normal times people like to hold sterling, because it is a convenient medium for world trade (nearly a third of which is in fact financed by sterling). But from time to time crises of confidence arise, possibly for reasons not directly concerned with our trade performance—a Middle Eastern war, for example. These crises are intensified by the general knowledge that our
financial reserves, and still more the industrial structure which constitutes our ultimate assets, are weak compared to our liabilities. And there is no world government to stand behind sterling as the Government, for example, stands behind Barclays or Lloyds or the National Provincial.

I think there is now a fairly wide consensus, as there was not even a few years ago, that the reserve currency role of sterling is a grave burden on the British economy, and not as used to be thought a source of strength. The trouble is to know what to do about it. How does a banker get out of banking, short of selling out to another banker? One way would be to revoke our obligations, impose strict exchange control, and announce that from henceforth we would not accept claims on sterling except for trade transactions. This it seems is what the French Government is recommending us to do, in telling us to shed our reserve currency function unilaterally before trying to enter the Common Market. The difficulty about such a drastic move is that it would set up a chain reaction the ultimate consequences of which would be hard to foresee, but which could result in our suppliers abroad refusing to continue selling to us. This could deal a death-blow to our economy which depends so heavily on imports. Rightly, I think, no British government in peacetime has been prepared to take this risk.
The right long-term solution is plainly to create a genuine world bank with reserves which would underpin sterling and the dollar, and I believe that we are moving slowly along this road. The latest IMF reform is a timid step forward. The French may even prove to have helped by posing the sterling problem so starkly in the Common Market context. The Chancellor was absolutely right to respond by offering to talk with all concerned on possible ways of solving the sterling problem on a supranational basis, particularly in the Common Market context. I don’t think one should be under any illusion that the French intend to be in the least bit helpful or constructive; nevertheless the issue they have posed is a real one, which it is as much in our interest to resolve as anybody else’s.

One obvious interim solution, pending a world reform, which has been advocated in slightly different forms recently by Mr Callaghan and M. Mendès-France, is the creation of a European reserve currency, with which sterling could be integrated and which would be backed by the combined financial resources of Britain and the Six. Such a move, were it possible to negotiate, would strengthen the position of Europe vis-à-vis the US, as France in particular has long wished to do. (Only those unfamiliar with the peculiarities of Gaullism will be surprised to learn that it is nevertheless the French authorities who most oppose it.) It would strengthen the stability of the world economy, by replacing a shaky reserve currency by a more credible one backed by stronger resources. It would make Britain a stronger and more reliable partner for Europe. For it is an illusion to think that, if Britain remains outside the Common Market, the Six will not have to worry about the troubles of sterling. In fact the history of recent years shows that the world financial system is already so interlocked that if a key currency gets into trouble the rest of the world has to help bail it out.

There are various other things we can do in the meantime to strengthen our position. The most important—I am ignoring minor but possibly useful gimmicks like an import deposit scheme, concealed export assistance of one form or another, use of public procurement to improve the balance of payments, a “Buy British” campaign, and so on—are discussed below.

**dollar portfolio**

The first is to take over the so-called “dollar portfolio.” The dollar portfolio consists of private British holdings of dollar securities and assets. (It is worth about £3½ billion, more than three times as much as our official reserves.) If these were nationalised and incorporated in the gold and dollar reserves, our financial position would not only look a great deal better but we would also have more reserves available to meet sudden runs on the bank as it were. Our credibility as a world banker would look much better. On the other hand, this would be an act of expropriation which would be extremely unpopular, not only with the City but with world financial opinion, and for this reason might itself precipitate a run on the pound. Also, insofar as these new reserves were used to meet such a speculative run, we would of course be giving up real assets. The alternative, politically less dangerous, is to devise some sort of voluntary scheme by which it would be made attractive to holders of dollar securities to sell them to the Treasury. If enough money can be voluntarily transferred to the Treasury in this way to fund a substantial part of our sterling balances, this will undoubtedly help. But the
danger is that any scheme which is palatable to the City will fall short of meeting our needs. At best this is a means of buying time; at worst it could backfire and lead to a further loss of confidence. I do not see it as a panacea.

**import quotas**

A second means of buying time is by import quotas. I do not favour this approach, though it could become necessary. I dislike it, partly because it means protecting one's least efficient industries, partly because it is not calculated to ease our way into the Common Market, but chiefly because I think it rests on a faulty diagnosis of our problem. Import quotas in the modern world are really only acceptable as temporary measures to meet a temporary crisis. I do not think our difficulties are of this nature. I cannot see what is going to happen within, say, the next two years which is going to transform our competitive position vis-a-vis the rest of the world. I believe that we have done and are doing a number of important things which will help. But I cannot honestly put my hand on my heart and say that, either individually or collectively, they are going to pull off the trick that has eluded us throughout the last half-century. Rather, I think we will be doing well in the next year or so if we manage to arrest the steady worsening of our position vis-a-vis the rest of the world which, as we have seen has characterised the period since 1955.

**devaluation**

So one is left, I think, with the third and most radical alternative, which is to alter the exchange rate of the pound, to devalue in fact. The case for devaluation is if you believe that we are in fundamental long-term disequilibrium. I do in fact believe this to be so, and so evidently does the Common Market Commission, according to its report on Britain's application for entry. If a devaluation is part of the price of British entry into Europe, it is a price I would certainly be willing to pay.

It is often argued that we cannot be in fundamental disequilibrium, because our export prices are on the whole not out of line with those of our competitors. Of course not; you charge whatever you must to get the business. But the question to ask is what is the relative profitability of exports and home sales at current prices, and how much potential export business is just not being done because it is unprofitable. To anybody who goes around British industry I think the answer to this is very clear. By and large, exports are very unprofitable compared to home sales even in today's not exactly buoyant home market conditions. The result is that, despite every inducement, a large proportion of firms are not exporting at all, and in too many others exporting is regarded as a chore. In such conditions sales organisation tends to be skimmed, the best men go on home sales, export orders have a low priority in company schedules, so that delivery dates are often not met and firms are unready to meet special specifications. Result—British exports get a bad name. It is better not to export at all than to do it badly and halfheartedly. We all know this has been happening in parts of British industry. I do not believe it is due to original sin, but to the simple fact that our exchange rate no longer reflects realities. There is nothing very sinful or shocking about this. It has happened to many countries in the past, and will no doubt happen to many in the future. In a constantly changing world, there is no reason why the one unchanging factor should be a historic-
ally-determined parity of exchange rates. Devaluations are a fact of life. It is true that devaluation for a reserve currency is a particularly complex operation, and that in the case of such a currency there are particularly important vested interests against change at any particular time. But the fact that we devalued in 1931 and 1949 proves that it is not impossible.

I am personally, therefore, in favour of a devaluation of the pound. So far as I know, the Government is not. It is known that a definite decision not to devalue was taken in October 1964 and again in July 1966. I believe that the decision was right on both occasions. The basic difference between the situation up to end-1966 and today is that until the July measures had started to bite Britain was an overheated economy suffering from excess pressure of demand. In such circumstances it would have been impossible to have stopped internal costs and prices from rising to offset the beneficial effects of devaluation. Our state would have been like France in her repeated, and repeatedly unsuccessful, devaluations under the Fourth Republic. Also a devaluation in these conditions would have destroyed, I think, any hope of getting a voluntary prices and incomes policy to work.

So I do not support the view of a number of economists that devaluation was, or is, an alternative to the other measures this Government has taken: to internal deflation, to the prices and incomes policy, still less to the imaginative and important micro-economic policies towards industry which would be necessary whatever macro-economic strategy we follow. The argument between the so-called expansionists in the Government and the others has not, I think, been over whether to deflate or not. It has been over whether deflation by itself would be enough, and over what positive measures should be taken to reap advantage of the breathing-space which deflation provides.

Events since July 1966 have in my view altered the balance of argument in favour of devaluation in two ways. First, they have created internal conditions which should enable us to hold our internal costs despite the rise in import prices which would accrue from devaluation. One must, I am afraid, be brutally clear about this. Devaluation will temporarily—I repeat temporarily—worsen the living conditions of our people. Only if it does this will it enable us to make the decisive shift of our resources from home sales to exports which is the necessary condition for an export-led boom—the only kind of boom which can be sustained without a return to stop-go.

The second factor which has I think emerged since July 1966 is that deflation by itself is not an adequate policy—even if it is accompanied by all the other measures which this Government has taken, and which I've already briefly referred to. There is an ominous difference between our recent experiences and those of other countries which have been forced by balance of payments difficulties to deflate in recent years. If you take Japan, Western Germany, Italy or France, you find a consistent picture. A cut in internal demand leads rapidly to a dramatic turnaround in the balance of payments, with soaring exports and steeply falling imports. In our case the turnaround has been much slower and more sluggish. Indeed, the balance of payments surplus forecast for 1966 has now been officially postponed to 1968, and now looks doubtful even for that year. Of course we have had bad luck—the seamen's strike, Rhodesia, Suez—but our vulnerability to such happenings is not accidental,
but one of the facts of our life which our planners need to take into account in their forecasts.

**conclusion**

So I would sum up our present macro-economic position and prospects as follows:

1. This Government has made a determined and so far reasonably successful attempt to remove the particular external constraints on the British economy. Unfortunately these are by their nature mostly long-term measures, and in some cases—for example international currency reform or membership of the Common Market—not entirely within our own power.

2. The Government was right to put the brakes on in July 1966, and its handling of our internal affairs since then has been in many ways both courageous and deft. Devaluation was not a realistic alternative.

3. Nevertheless, events since then have shown that it is going to be much more difficult to get the economy moving again on an internationally viable basis than was originally thought. The present strategy does not I'm afraid hold out a particularly inviting prospect. I wrote in *The Times* on 21 August 1967: “The Government's present strategy offers virtually no room for manoeuvre or contingency planning. If all goes well, it should just about enable us to pay our way with a rate of growth which is well below that of our competitors, a public expenditure programme which is probably less than we need but which requires increased taxation, a rate of unemployment which a few years ago we would have rejected as intolerable, and a rate of private industrial investment which is generally recognised to be inadequate.” I might have added “and an accelerated brain drain which is robbing us of our intellectual seeds-corn.”

4. I conclude, therefore, that something more is needed to enable us to take advantage of the sacrifices of the last twelve months, and to end the stagnation before it does lasting damage to our industrial and social structure. Having considered the alternatives, I am left with devaluation not as an alternative to the Government's other measures, but as a necessary condition for their success.
4. Industrial policies

I would now like to turn to our micro-economic policies for improving the structure and performance of industry. There are, not surprisingly, problems here too. But I think the story here is much more promising and encouraging, and I believe that in this field the Government has a great deal to be proud of.

It is true of course that these micro-economic policies have failed to solve the current economic problems. But it was never realistic to expect that they would. I think there was a good deal of muddled thinking in 1964 and 1965 about the kind of time-scale against which one was operating in one's various industrial policies: about the length of time it would take to produce a major pay-off from the work of Mintech, the Little Neddies, the IRC, the Industrial Training Boards, the stimulation of management education, and so on. What we have been doing here is to identify and tackle the built-in structural defects of our industrial economy. You don't do this overnight. You cannot re-structure industry and train up a new generation of business managers in a year or two. These things take time, even if one is working in a controlled economy where one simply has to elicit the facts and then give the relevant orders. It takes much more time if you are working, as we have been working, on a basis of partnership with industry and the unions. For this adds a new dimension, which can be the most time-consuming of the lot. Having got agreement on the facts, you then have to persuade other people to take the necessary decisions—and this can be a long and wearisome process.

So it has always been clear to me that in the industrial side of the DEA, as in Mintech and the other industrial agencies, there has been working for the 1970s and not for the immediate economic crisis. Only the right macro-strategy can solve your immediate economic problems. But this does not mean that industrial policies are unimportant. On the contrary, they are supremely important. Only if we can solve our structural problems can we get ourselves into the right long-term posture, a posture where we can get away from stop-go and combine continuous expansion with stability in the balance of payments and internal prices. Micro- and macro-measures are complementary. Without the right macro-strategy you will not be able to get full advantage from your micro-policies. That is one reason why our industrial policies have so far seemed disappointingly ineffective. But by the same token, unless you can tackle your structural problems, any macro-strategy you adopt is liable to come unstuck. We found this to our cost in 1963-66, when first the Conservative government and then the Labour government tried unsuccessfully to follow through a “dash for growth” policy, on the assumption that a period of sustained high demand would itself enable the necessary structural changes to be made and thus strengthen our long-term competitiveness.

I still believe this was an experiment worth trying, and that we were right to maintain it as long as we reasonably could. It is true that a period of buoyant demand, when people can plan ahead with confidence, provides the best climate for innovation and change. We would I believe be better off today if in the first part of this four-year experiment, the Maudling era, a more systematic attempt had been made to complement the macro-strategy by the kind of sustained attack on specific industrial problems which was the hallmark of the succeeding Labour government. We lost valuable time here, time which in the event we found we could not afford.
In the last twelve months we have had to continue the drive for greater efficiency in a much colder, less congenial climate, in which the fear of change has to some extent returned, in which it is much harder to convince people of the reward which will follow if they accept change. I think it is quite an achievement that, despite this, so little of the initial momentum has been lost.

I am an enthusiast for what Andrew Shonfield has called "Positive Government." I believe profoundly that the conditions of the modern world call for an increasing involvement of government in industry, for an increasing degree of cooperation and cross-fertilisation between government, both sides of industry, the educational system and indeed the other main sectors of our body politic. I believe that only thus will we be able to exploit the opportunities of technology and remove the built-in obstacles in our society to its profitable exploitation. This is all set out in much greater detail in my latest Penguin book, *The Innovators.* I believe that no government, Labour or Tory, in modern Britain can afford to disinterest itself in the performance of business. For only by a better use of our assets can we grow, and only by growth can we find the wherewithal to finance the improvements which every modern government rightly feels it should provide for its people.

Although I could discuss the detailed work of the Prices and Incomes Board, the Little Neddis and so on, at length, I know from experience that to those who are not intimately concerned, the minutiae of these activities can be extremely boring. For of their nature these industrial policies lack the broad sweep of macro-strategy, and involve the painstaking probing of particular problems of particular sectors of industry which are not normally of great interest except to those involved. If you don't believe me, try reading the second part of the National Plan! So I will confine myself to a brief analysis of what seem to me to be the main current issues arising in this field.

I would like to start by identifying two main approaches to the problem of industrial policy. They are neither mutually exclusive, nor do they exclude other approaches. But they are sufficiently important, and sufficiently different, to justify a brief discussion.

The first approach, which is that identified with Neddy, with the Training Boards, the Regional Planning Councils and with the prices and incomes policy—though not with the Board as such—is what I sometimes call the "sweetness and light" approach. An alternative description is the "Swedish" approach. The essence of this type of approach is the voluntary getting-together of all the main interested parties, to examine in a spirit of dispassionate cooperation the opportunities for growth, the targets at which it would be reasonable to aim, and the main obstacles which look like preventing these targets being reached. The Neddy Council does this on the national scale, the Little Neddis for particular industries, the Regional Councils for individual regions, while the Training Boards carry out the same kind of exercise in the specific field of labour requirements. The assumption is that, having identified the problems, the partners in the exercise will then work jointly to remove them.

This pattern was, of course, established by the Conservative administration, and I think they deserve some credit for it. On the foundations they laid it has been possible to build, and to tackle a number of major problems while maintaining the goodwill of industry—
not always an easy matter for a Labour government. The “consensus” approach developed through these bodies was a crucial element in getting agreement to the successive stages of the prices and incomes policy. It has been an important and fruitful development of industrial-economic policy, and one which I guess will remain with us for many years to come, irrespective of the colour of the government in power.

But this approach has the defects of its virtues. The main defect is that if the parties concerned are not prepared to take action, action will not be taken. Thus Little Neddies have broadly speaking so far proved relatively ineffective in the fields of use of manpower (including restrictive practices and demarcation rules) and industrial structure (the scope for mergers and rationalisation). The reason is obvious. By and large the unions are not willing to discuss the former, and the employers the latter, in the relatively public forum of an industry committee. This means that if one wants to get action on these fronts one must seek other ways.

Second, there is an implicit assumption in the Neddy approach that people will act in the public interest once it is pointed out to them with sufficient force. But this is not always the case. There is sometimes an irreducible gap between what is in the public interest and what is in the short-term sectional interest; and in such circumstances the public interest is likely to take second place. Union demarcation rights are a case in point. An alternative example is the question of investment during a recession.

We all know, I think, that we have been investing too small a proportion of our national product in industry since the war, and this is one of the main reasons for our poor performance. Specifically, in certain key industries—chemicals and many sectors of engineering and machine tools for example—we simply have not had enough capacity installed to meet our needs at the top of the boom; with the result that imports have been sucked in, and the ensuing strain on the balance of payments has forced government to kill the boom. Unless industry is persuaded to invest more in these key areas, we are in danger of running into exactly the same bottlenecks the next time we try to run our economy flat out.

This has been documented in considerable detail for a number of industries by Neddy, and it has been pointed out that it is in the long-term collective interest of these industries, as it is in the national interest, to remedy this problem. But the trouble is that many firms who accept the basic logic, argue nevertheless that it is in their individual commercial interest to under-invest, so that they are always operating in a seller’s market. It costs them less to lose orders at the top of the boom through inability to supply, than it would to carry heavy overheads of unused capacity in slacker periods. I am oversimplifying the argument, but there is here, I believe, a valid distinction between the public interest and the private interest.

There is a further problem to the Neddy approach. The consensus on which it is based is still, I am afraid, a very shallow affair. I think this was brought out very clearly at the last TUC Congress, where in the economic debate it seemed to me that the general secretary and the Congress were conducting a dialogue of the deaf. Mr Woodcock was asserting his right, as representing the trade union movement, to negotiate direct with the Prime Minister on the whole drift of economic and industrial policy, and he
wanted a clear mandate from the Congress to do so. But all this was a bit esoteric to the delegates, who were much more concerned with their and their members’ jobs than with the grand design of economic policy. In the event Mr Woodcock didn’t get his mandate, but assumed that he had it, and went off to 10 Downing Street regardless.

The fact is, it seems to me, that whereas in Sweden a consensus policy worked out between government and both sides of industry is widely accepted in principle, and for that reason and because Swedish central institutions are very strong is generally applied in practice, in Britain this is not yet so. The consensus so far as industry and the unions are concerned seems to me still to be essentially an Establishment consensus, limited to the relatively small number of people who sit on one or other of the many Nddy-type committees. It doesn’t as yet penetrate far beyond that, and it certainly doesn’t as yet anyway animate the national consciousness as it does in Sweden. This is partly a function of time—the Swedes have been at it for thirty years, we for five; partly a function of the greater complexity of our economy; and partly a function of the fact that both the CBI and TUC are by Swedish standards very weak organisations, with relatively little power or influence over their members (this is much more true of the CBI than of the TUC).

This means that in dealing with these bodies the Government is to some extent dealing with paper tigers, with bodies possessing more of the shadow of power than its substance. This applies also of course to the Little Neddies, which have no executive authority and in some cases a questionable standing in their industries. If one adds to this the unfortunate fact that communications down the line in most trade unions and most trade associations are extremely poor, it becomes clear that the impact of bodies like Little Neddies on the actual centres of decision-making in industry—the individual board-room or the shop floor—is pretty limited.

the implications of intervention

All this is not to say that the Nddy exercise is useless or mistaken; only to say that it still needs more time to develop, and in the meantime should not be asked to carry more weight than it can bear. Consequently it is not surprising that the Government has been casting about for more direct ways of influencing industrial decision-making, through measures which discriminate between firm and firm. There are various ways in which this can be done. A more discriminating and purposeful use of public purchasing is one. The IRC is another, though outside the direct control of government itself. A third line of approach is through the NRDC and the various means at the disposal of Mintech to help stimulate technological advance.

The Government now proposes to take more general powers to discriminate through the Industrial Expansion Bill. I think in principle it is right to do so and the CBI’s opposition looks increasingly doctrinaire. Government has a duty to see that the very considerable sums of money which go to industry in one form of subsidy or another are used to best effect, and this can most easily be done by seeing that the money goes to those managements best equipped to make good use of it. Second, if it can identify gaps in the economy which private enterprise cannot or will not fill unaided, government has a right and a duty to see what it can do to get them filled. The aluminium smelter proposal...
is a clear case in point. Whether the best way for government to achieve its ends is by buying shares in private firms or by some other method is a matter of detail. The important thing is that the national economy should benefit.

But I do have doubts about the Industrial Expansion Bill, though they are not the same as the CB’s. My doubts are not about principle but about practice. Frankly, my fear is that the mountain will bring forth a mouse, that we shall incur the maximum suspicion and ill-will to gain the minimum results.

In other words, my doubts concern the ability of government, as at present conceived and organised in this country, to play the kind of positive, purposive role vis-a-vis industry to which it now—rightly, I think, and inevitably—aspires. I hope the Fulton Committee will address itself to this problem when it reports early next year. For I believe that a lot of our present troubles arise from the fact that we are trying to use the government machine to do something for which it is not designed. We are trying to use a shock absorber as a dynamo.

Organisationally and psychologically, government in Britain is designed to respond to outside pressures. It is not designed to initiate change. Civil servants have little direct feeling for or understanding of industry. Success comes to the civil servant, not from taking bold initiatives, but from avoiding anomalies, mistakes or decisions which cannot be publicly justified. This is hardly the right frame of reference for risk-taking. But the essence of positive government is precisely that you do take risks. In discriminating between firm and firm, between project and project, you are creating anomalies, you are taking decisions which you may not be able fully to explain or defend in the House of Commons, you are making choices some of which will turn out to be wrong.

All this, I repeat, is right and inevitable in our present circumstances. But if we are to carry it off successfully we need to set new guidelines for our civil servants, we need to carry much further the very promising innovation of bringing businessmen into government in decision-making roles, and we need to alter to some extent the current rules of the parliamentary game, and enable ministers to take entrepreneurial decisions without having to justify them fully in advance. (It was partly because of this inhibition that when the Government first felt the need to move into this difficult area it did it by setting up an independent institution in the form of the IRC).

Moreover, if it is to be a businesslike partner of industry government needs to streamline its decision-making process. Government today lacks clear-cut channels of command, clearly-defined functional responsibilities. Far too much work is done through inter-departmental committees, where the need for swift decision is subordinated to the search for consensus and compromise, to what I have called elsewhere “government by convoy” or sailing at the speed of the slowest. I am clear that this will continue so long as the top executive committee, from which all the others down the line take their tone, is as big and unwieldy as the present Cabinet.

So, although I think we are moving along the right lines, we have much to do to make Britain truly viable and to free ourselves from our present constraints. Nor do I think we have all that much time. As I have argued, many of the measures on which we are working are inevitably long-term, and others are
made long-term by the defects in our governing machinery. But the world outside us is not standing still. Many of the micro-policies on industrial structure which we are working on are being paralleled overseas. The gap between the standards of management and the application of technology in America and Europe (including ourselves) is not in my judgement being closed, but if anything is tending to widen; and Japan, which is absorbing American methods and standards at a rapid rate, is emerging as an increasingly dangerous competitor not only to ourselves but to the whole of Western Europe. The brain drain shows how little, in the last analysis, can our industry insulate itself from outside trends. The winds of change are blowing harder through our society than for many years, but if one looks at Britain from outside it still looks like a country where the pace of change is slow and the obstacles to change are strong—a country where things take a long time to get moving. It is this hardening of the arteries, the sense that one sometimes has of living on a planet where the force of gravity is very great, so that one has to apply immense strength to shift a feather—it is this which constitutes to my mind the real “English disease.” We have still to liberate the creative forces in our economy, to harness the inventive power which runs like a golden thread through our history, from Caxton to Carnaby Street. Then, and then only, I think will Britain become truly viable; and then, and then only, will we be able to build in Britain the just, dynamic society of socialism.

POSTSCRIPT
Eighteen days after this lecture was delivered, the Government announced the devaluation of the pound by 14.3 per cent. The decision was taken hastily, under intense international pressure, in a sterling crisis of unprecedented severity. It was accompanied by a package of what I regard as unnecessarily tough deflationary measures. The devaluation has not therefore taken place under the best auspices or in the most propitious conditions for its success.

Nevertheless, I welcome it. I believe that it gives us, for the first time in years, an opportunity to reverse the long-term decline in our export competitiveness, and to achieve the small but decisive shift in resources from home sales to exports which is the essential condition for economic success. In my lecture I argued the case for devaluation, not as a panacea or a soft option, but as a crucial but at that time missing element in a comprehensive policy for sound and sustainable growth. I argued that the success or failure of devaluation would be determined by our subsequent actions. The die has now been cast sooner than I expected. We face our most decisive challenge. If we cannot solve our balance of payments crisis now, our case is very grave indeed.
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Enquiries about membership should be sent to the General Secretary, Fabian Society, 11 Dartmouth Street, London, SW1; telephone Whitehall 3077.

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