

STATE ECONOMIC PLANNING
IN A CAPITALIST SOCIETY:
THE POLITICAL SOCIOLOGY
OF ECONOMIC POLICY IN BRITAIN,

1940-79

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STATE ECONOMIC PLANNING IN A CAPITALIST SOCIETY:

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- Frank Hoover Longstreth

This thesis investigates the relationship between business and the state in modern Britain by focussing in particular on the development and attempted institution of forms of economic planning and more generally on the formulation and implementation of economic policies. In this effort it looks at changes in forms of representation, modes of procedure and patterns of state intervention in the economy. It then attempts to characterise various shifts along all three axes in terms of an oscillation between pluralism/liberalism and corporatism/interventionism. A central theme is that the latter programme has been relatively weak and poorly instituted in post-war Britain, and most of the empirical detail is constructed around an explanation of this phenomenon. The core of the argument here is that, while relations between dominant and subordinate interests can be seen as primary in the explanation of the politics of economic policy, relations between business sectors are also an important and necessary part of that explanation. More specifically, the thesis attempts to document the argument that relations between the industrial and financial sectors have been marked by various lines of conflict, both actual and potential, and that the latter have been structured by a particular pattern of national economic development which has placed financial interests in a position of economic and political dominance. As such the introductory chapters trace out the historic roots of that dominance and instances of intra-business conflict in the late 19th and early 20th centuries. The main bulk of the thesis attempts to substantiate a case for their continued relevance in the period since World War Two, focussing in greatest detail on the attempts at economic planning and other forms of state intervention under Labour and Conservative governments in the 1960s and 1970s. The weakness of the corporatist/interventionist programme is then attributed to various institutional, structural and political-economic features of the relations between the state, finance, industry and organized labour.

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CHAPTER ONE

Introduction - Theoretical Framework

This dissertation addresses two principal issues. Firstly, it offers a political-sociological account for specifically the rise and subsequent career of interest in and attempts at some form of national economic planning and more generally the formation and implementation of economic and industrial policy in postwar Britain. Secondly, much of this account concerns the relationship between dominant socio-economic interests and the modern state in a capitalist society. Neither of these problems could be adequately treated without also considering the role of subordinate interests, most obviously organized labour. However, in part in order to focus the limited attention and resources of the author and in part because recent work has already dealt with the role of labour in considerable depth (see among others Panitch, 1976, and Crouch, 1977), the latter will constitute only a secondary theme in the present work.

Originally the project of this dissertation was inspired by a reading of what is now commonly accepted as a minor modern classic, Andrew Shonfield's Modern Capitalism (1969). Shonfield's work, first published in 1965 at the height of the long postwar boom, was in essence an explanation of what had gone right for the main capitalist political economies, especially the European powers, in the years since the Second World War. His account of this success and future prospects was fundamentally optimistic, depicting the underlying conditions as "more favourable than at any time in the history of capitalism (p. 63)" and conceiving no necessary reason why the boom-slump "patterns of the past"

should reassert themselves. As an explanation he stressed three main economic factors: steadier growth, rapid gains in productivity and a more equal distribution of income. However, it was particularly the acceleration in technological innovation and the commitment to full employment that struck him as distinctive features of the new order. Moreover, his appreciation of the development of means of conscious regulation and innovation of new kinds of political institutions and practices more than anything was responsible for his Whiggish prognosis. Among these he included the increase of government influence and expenditure, the growth of public welfare, the taming of the "violence" of the market through government-business collaboration, the expectation of and political commitment to steady growth in real incomes and finally the "pursuit of intellectual coherence" most obviously manifested in the emergence of long-scale national planning of the economy (esp. ch. 4). In fact it was really the political institution of the latter as a means of "controlling the boom" that as a British author constituted his primary concern.

My own research began a year after the postwar system finally came tumbling down, that is if one dates the oil crisis of 1973-74 as the final blow to an already teetering edifice. As such the present work is much more an explanation of what has gone wrong, although unlike Shonfield I will be exclusively concerned with one of the weaker of the major capitalist nations. It is no less than a terrible irony that all of the political institutions and practices identified by Shonfield above as the basis for his favourable view of the prospects for democratic capitalism have been brought into question if not disrepute in the last decade or so. Although I too am primarily interested in political institutions and practices, the following account will again unlike Shonfield be essentially pessimistic in

tone both as regards the past and, although I will refrain from predictions, the future. It is not my intention in this introductory chapter to rehearse the recent debates on the nature and role of the state in modern capitalism, the representation and influence of the major socio-economic interests and similar issues usually associated with the topic of corporatism. This has been done well and often enough elsewhere, although I will return to these issues in the conclusion at least as regards the implications of the analysis presented here. For the moment I will simply introduce some of the concepts that will be employed in later chapters as well as the analytic framework that has served as a heuristic guide to selecting and organizing the rather large bulk of material contained in subsequent chapters.

The concept of organized capitalism, although first employed by Hilferding as early as 1915, has hardly been developed since that time. This is in part because of its association with Hilferding's evolutionary and deterministic model of capitalist development but more particularly because of his polemical use of the concept as a justification for social democratic practice in Germany during the period of the Weimar Republic. What is immediately notable is the similarity between the analyses of Hilferding and Shonfield, despite the gap of half a century between the publication of the two works, Finanzkapital and Modern Capitalism. Both authors depicted a stabilization of capitalist production, i.e. the taming of financial and economic crises, and linked this to specific organizational features of a "modern" political economy. However, the sense in which I will attempt to develop a model of organized capitalism (or its absence) follows the usage of the term in a recent collection of articles edited by H.A. Winkler (1974) in that it eschews any claim that the tendencies towards crisis have been finally eliminated. Here it refers

to a number of processes appearing most explicitly in Germany but also with considerable variation in other major capitalist nations in the period 1870-1914, which mark out a break from the liberal or competitive capitalism of the 19th century. Following Kocka (in *ibid.*) I will designate the main aspects of this period as follows: 1. on the basis of rapid but unbalanced economic growth and the development of new productive forces, the emergence of the modern corporation, syndicates, trusts, cartels and other forms of suppressing "free competition" and the interlacing of industrial and banking capital in a form which Hilferding termed "finance capital;" 2. the emerging separation of ownership and control functions, including here the development of "scientific management," new forms of specialization and increased bureaucratization; 3. related changes in social structure, including the growth of new managerial and white collar strata, especially in the sectors of commerce, finance and services; 4. the development of organized class conflict through both extensive unionization and the largely responsive growth of employers' associations; 5. the elaboration of new and more active forms of state intervention in the economy; 6. imperialistic expansion and the intensification of international rivalries; 7. developments in the political sphere, including new styles of administration and the growth of the mass party and 8. an associated ideological shift with a new emphasis on science, organization, efficiency and planning.

The utility of this approach lies in a particular and in some senses negative or counter-factual application to different national and historical contexts. For, as I will explain more fully in the next chapter, it is precisely the absence of the characteristics of organized capitalism outlined above (at least as regards this initial period and in some cases for much longer) that helps to explain

the particular pattern of British economic and political development. When this model of organized capitalism is married to notions of the features of early and late development, derived mainly from the brief but influential work of Gerschenkron (1962), one has the beginnings of a heuristic for the comparative historical study of the political economy of modern capitalism. However, it should be re-emphasized that this is not an evolutionary or deterministic account of political events and processes. The relationships, institutions and structures established in the late Victorian and Edwardian periods did not fix the contours of the British political landscape for all time. It is only in so far as one can establish the conditions for their reproduction that a case can be made for their persistent influence, and, conversely, any transformation in those conditions should point to significant changes in political relations and the opportunity for pursuing different political-economic strategies.

The above considerations relate primarily to the background and point of departure for the present study. As such these issues will enter into the argument specifically in the next chapter where I will consider the relations between industry and finance, the institutional development of both and their relation to the state and the pattern of economic policy. More explicitly the approach adopted here has been informed by a critical appreciation of recent debates in political sociology in reference to democratic capitalist societies on the form and significance of interest representation (especially concerning the rise of neo-corporatism), Marxist explanations of the nature of bourgeois dominance, the pattern of state-economy relations and more specifically the characteristics of state intervention and finally on various features of the modern state itself, in particular its institutional structure, modes of access and influence including but not limited to patterns of

interest representation and the various rules or modes or procedure that guide decision-making with specific reference to economic and industrial policy. While this dissertation is primarily descriptive, one issue that is pertinent to these debates will feature throughout the following pages, namely the relation between the industrial and financial sectors in Britain. The view that the "separation" of industry and finance retains a lasting significance, as well as that the pattern of relations between the two within the "dominant bloc" has remained one in which financial capital is the pre-eminent partner, obviously derives from Poulantzas's arguments concerning the two aspects of capitalist hegemony, i.e. first, the constitution of a dominant power block and, second, the presentation of the interests of that bloc as those of the nation as a whole (Poulantzas, 1973, esp. pp. 77-98). However, these dual tasks should not be taken in any sense as automatically or spontaneously fulfilled. Both the constitution of a dominant bloc and the presentation of its policies as the national interest occur on the contested terrain of the state, and as such both are problematic. Even a fair degree of success in this area, the construction of a "hegemonic project", by no means guarantees that the policies pursued are the "right" ones in terms of the reproduction of a capitalist social and economic order, a point to which I will return below. Thus, the use of this terminology does not mean that I have taken on the entire baggage of Poulantzas's epistemological and theoretical position. If I use the term "fractions" rather than the more conventional elites, it is because this evokes the sectoral conflicts and alliances which I see as essential to understanding the political practices of the dominant class and the formation of economic and industrial policy.

The issues delineated above, namely the cleavages and alliances within the dominant class and their relationship to both the demands

and pressures from subordinate groups and the economic and industrial policies actually implemented through the political process, will constitute the main substantive themes of subsequent chapters. Although this dissertation is an overwhelmingly empirical work, I will draw here certain other distinctions which, while remaining mainly in the background of the discussion, have guided the presentation of much of the material and which will be referred to explicitly in later chapters as regards the development of particular policy areas. On this basis I will briefly distinguish three dimensions of the analysis which, while generally treated as part of the same historical process, can be seen as analytically distinct, namely representational inputs, modes of procedure for policy-formation and types of state intervention or economic policy outputs, and through this presentation introduce some of the subsidiary themes of this thesis.

As regards the first dimension of this framework, namely the political representation of socio-economic interests, this issue is inevitably tied up with the revival of corporatist or more exactly neo-corporatist approaches of the 1970s. Since the publication of articles by Schmitter (1974) and Pahl and Winkler (1974) the literature on this subject has mushroomed, and the concept of corporatism has become increasingly diffuse. Although Schmitter offered a relatively contained operational definition of corporatism as a system of functional interest representation and regulation, Pahl and Winkler and later Winkler (1976) introduced a different meaning into a politically receptive British audience, namely corporatism as a system of state control over the private sector. Subsequently, the term has also been applied to patron-client relationships between state agencies and the recipients of their services, especially in the fields of social policy and public welfare (Cawson, 1978, and Offe, 1981).

In the following chapters I will use the term corporatism and

related concepts in the narrower sense discussed above, that is, referring to functional forms of interest representation and regulation of major socio-economic groups. In the British case I would agree with Jessop (1979) that corporatist forms of representation have always been subordinated to the parliamentary system, that the typical articulation has been one of "tripartism" where the latter has had a rather narrow issue focus, mainly within the realm of what is known in German as Ordnungspolitik and Konjunkturpolitik, that is policies of economic stabilization. Thus, the impetus for the institution of functional forms of interest representation has typically been such concerns as economic restructuring, planning, labour training and industrial conciliation and incomes policy. Even in the 1930s radical advocates of corporatist representation saw it as subordinate to parliamentary rule. In terms of this thesis I will be concerned primarily with sub-species of corporatism as they apply to relations between business and government. In a descriptive sense I will attempt to substantiate a specific periodization of functional interest representation for the British case in which the main differentiating factors include the degree and mode of formalization or institutionalization, the use and extent of sanctions, whether the latter have a statutory basis or rely on some form of "moral suasion," and the degree of compulsory as against voluntary membership.

The second axis of differentiation in this work is the mode and extent of state intervention. Of course, even the use of the term state intervention presumes an initial separation between the state and the economy. The logical derivation of this separation has been a focus of the German Staatsableitung approach (see Holloway and Picciotto, 1978). For my own purposes I will simply assume that the state in advanced capitalism is fundamentally divorced from the accumulation process. Alternatively, in the terms employed by Lindblom (1977), there exists an area of market controls separate from

and impinging upon polyarchal controls. Thus, while recognizing that even laissez-faire implies a specific relationship between the state and the economy of an initially active sort (Polanyi, 1957), I will use the term state intervention to apply to any attempt to modify or subvert the "free play" of market forces. Quite obviously many such efforts, as in the area of Ordungspolitik mentioned above, are associated with the development of forms of functional interest representation, especially since such interests are typically obliged to administer those policies at least in part. The role of incomes policy is usually seen as central in this relationship, and, although this will constitute one theme of the present work, much of my concern will be with economic and industrial policy in the sense of industrial restructuring and other forms of limiting or modifying competitive market relations. The different factors included in the periodization of state intervention are whether it is ad hoc and responsive to specific crises or generalized and initiatory, the extent of compulsion and the use of sanctions/statutory controls as against fiscal incentives, subsidies or other informal instruments and the degree to which such policies are co-ordinated by a central political authority or concerted through corporative agencies, autonomous associations, non-public institutions or private firms. However, my focus will be somewhat wider in that I will treat these specific policy areas in the context of and in terms of their articulation with the macro-economic framework that various governments have employed. The relation and tension between such Ordungspolitische issues and macro-economic policies as well as the implications and effects of both of the above on the forms of interest articulation and the converse consequences of the latter thus constitute other significant aspects of this dimension.

As this dissertation is primarily about attempts (however restricted) at economic planning, I will refer to the shift away from liberal conceptions of the role of the state in the economy, or in Winkler's terms the move from facilitative to supportive or directive activity. However, contra Winkler (1976) a central theme will be the limits, both political and economic, on the state as a directive or planning agency.

The final dimension informing the present analysis is based on Offe's (1975) distinction between different sets of decision-making rules or modes of procedure within the state administration itself as applied to its economic activities and related policies. He proposes three "logics" of policy-making: bureaucracy, purposive action and consensus, which correspond to different modes of action. The bureaucratic mode of operation follows from Weber's ideal type and corresponds to the formal activities of facilitation and support outlined above in the sense that these involve the application of the typical resources of the state, law, money and administration, within a formal and universal framework. Bureaucracy in this sense is primarily oriented towards inputs, legal and political directives from above, that is the application of general rules and specific political commands, which is both its main advantage and greatest limitation. The institution of a purposive-rational or technocratic mode of procedure involves a shift towards output, that is, "an activity is 'adequate' not if it conforms to certain established rules and procedures, but mainly if it leads to certain results (Offe, 1975, p. 14)." In effect this amounts to the state administration adopting the practices of modern corporate planning but with a major drawback. For a business firm the central goals, e.g. the price or quantity of a certain commodity, can in a formal sense be derived from the market relations

in which the firm is imbedded. No such automatic mechanism exists to inform the economic operations of the state. Purposive rationality must presume its ends in order to be effective; it is a purely instrumental strategy. In a political system those ends are inevitably determined politically whatever recourse is made to technocratic problem-definition. Having said that the adoption of supportive and directive activities would seem to at least encourage the attempt at developing technocratic modes of procedure, since relying on input-oriented bureaucratic administration is bound to have negative consequences or inconsistent results from the point of view of actively sustaining conditions of accumulation.

The third mode of operating is to establish forums for consensus-building or the concertation of immediately affected interests. In the context of the present discussion this involves the use of corporatist or similar agencies as a mode of procedure as well as a form of interest representation. The problem here is similar to that mentioned above; there is no necessary relationship between decisions made by reference to consensus and the wider rationality of the economic activities undertaken by the state. As with technocratic forms of procedure consensus-based decision-making would apparently correspond with the development of supportive and directive roles, especially in so far as substantive activities affect particular socio-economic interests. However, none of these different approaches should be seen as in any sense functional to a particular stage of development of capitalism or a particular type of state activity. Neither is the adoption of a specific procedure or mix of several likely to be adequate. Indeed, a point to which I will return is the degree to which the institutionalization of different procedures in separate departments contributes to the fractionalizing of the state adminis-

tration itself, i.e. the way in which the adoption of different terms of reference as well as the representation of divergent socio-economic interests introduces strain and conflict within the state.

As a final point to this section one should note that these three dimensions, while analytically distinct, tend to overlap considerably in any concrete historical conjuncture. As such this typology (as with much of the previous discussion) should be seen as a set of considerations which have informed what is by and large a historical analysis and not as a set of propositions to be tested or an analytical schema which will be rigidly adhered to throughout this dissertation. The reason for elaborating it at this point is to introduce some concepts that will be employed in subsequent chapters and to indicate the points where a primarily discursive account intersects with theoretical issues of current debates. In a broader if looser sense another theme of the present work is related to these considerations, namely the oscillation in modern British political economy between forms of liberalism and forms of corporatism/interventionism in the relations between the state and the economy/economic interests. By the former term I mean the attempted restriction of state activity to facilitative modes, the reliance on parliamentary forms of representation and the pre-eminence of bureaucratic decision-making, especially where the latter takes as its reference point the subordination of the state to commodity relations, i.e. doctrines of "fiscal prudence," financial responsibility," and "monetary control." By the latter term I am referring to the development of supportive and/or directive modes of state intervention, corporatist or tripartite systems of interest representation and their articulation with technocratic and/or consensual modes of procedure, where the latter is typically allied with a "productivist" orientation,

i.e. a concern with productivity, growth and unemployment as specific aims of economic and industrial policy. As I will clarify in later chapters the relative weights of different economic interests and social and political forces will constitute a central focus in the explanation of the political conditions of existence for these shifts between corporatist and neo-liberal programmes.

The various themes outlined above are raised within an argument that is essentially historical and thus presented chronologically. As such Chapters Two and Three introduce the case for the significance of the particular path of British economic and political development and the long-term importance of the sectoral conflicts and alliances referred to above. Chapter Two outlines the relationships that defined the classic liberal system of the late Victorian period and the challenge to that system posed by economic and political developments of the early twentieth century. As described by the term "free trade imperialism" this system involved the institution of an "arm's length" relationship between the industrial and financial sectors, the persistence of the family firm, the de facto alliance between staple exporters and a financial sector oriented towards international trade and the political predominance of the latter through the explicit commitment to free trade and the operations of an international monetary system based on the gold standard and centred in London. The Tariff Reform campaign within the Conservative Party is then described as the first hint of the breakdown of this system, and the ensuing conflict is analysed in terms of both its sectoral composition and its political limitations. Chapter Three picks up the same themes in a discussion of the inter-war period. After charting the attempted revival of the pre-war monetary system, I look at its implications in terms of sectoral conflict and the emergence of alternative programmes within industry and the labour movement. In contrast to other interpretations, especially Middlemas (1979), I emphasise the limited nature of the corporatist challenge and the restructuring of economic and political relationships that occurred in the 1930s.

Chapter Four investigates the rise and fall of the system of war-time planning or "supervised self-government" of industry. Labour's attempts to synthesise this experience in a programme of "democratic planning" are then examined along with the reasons for the failure of the latter. Chapter Five charts the revival of neo-liberalism in the 1950s in terms of the resurgence of the City as a major political force, the renewal of Bank and Treasury control, the restrictions placed on demand-management Keynesianism and the decline of direct links between industry and the state. Having outlined the emerging conflicts and problems that accompanied "Conservative liberalism" I look in Chapter Six at the origins of the shift towards "indicative planning" and "neo-corporatism" in the 1960s, focussing on the key role of major industrialists. Chapter Seven discusses Labour's attempt to institutionalise this alternative programme of tripartism, growth, sectoral intervention and incomes policies. The failure of this programme is attributed to the dominant position of the financial sector and the increasingly unstable basis for policies of industrial consensus given the exposed position of the British economy and the growing importance of a distributional conflict between industry and labour. In Chapter Eight I return to some of the structural and institutional themes raised at the beginning and look at the predominant post-war trends in the industrial and financial sectors as well as their inter-relations, highlighting the economic basis for increasing severity of the political conflicts of the 1970s. Chapter Nine reviews the attempts on the part of the Heath government to break out of the post-war stalemate in the direction of liberalism. In Chapter Ten I investigate the revival of the neo-corporatist programme under Labour and the rapid undermining of the same through the combination of the monetarist conversion of financial markets and the inability of the government to overcome the distributional conflict that now dominates industrial relations. This analysis sets the stage for the final break with the post-war system represented by the Thatcher

government by emphasising the extent to which Labour had already retreated in a similar direction. In the conclusion I attempt to bring together the main themes of the narrative in explaining the nature of the present impasse in British politics.

To summarize briefly these are the main themes that will be pursued in the course of this dissertation: 1. the relations within the dominant socio-economic class, in particular between what I will designate as the two main "fractions," banking and industrial capital; 2. related to the above, the structural and institutional features of these two main interest groups, especially as regards their relationship with and mode of access to the state and as premised upon economic relations carried over from early British development; 3. changes in the patterns of interest representation and modes of procedure within the state system and 4. the relationship between state economic intervention and the process of capital accumulation, where the latter concerns not merely profitability but the broader issues of productivity, competitiveness and economic growth as well as features specific to the position of financial markets and institutions, in particular the roles of sterling, financial crises and government borrowing. These various, if not too disparate, themes will, I hope, be woven together in a reasonably coherent account of the rise of and limitations on state economic planning in particular and more broadly the pattern of government economic and industrial policies in relation to the role and influence of dominant and subordinate classes in the modern British context.

CHAPTER TWO

The Decadence of British Capitalism, 1870-1914

What is remarkable in this vast movement [the British railway boom of the 1840s] is that the great leaders of the financial world took no part in it. The mighty loan mongers, on whose fiat the fate of kings and empires sometimes depended, seemed like men who, witnessing some eccentricity of nature, watch it with mixed feelings of animosity and alarm.

Disraeli, Endymion, Ch. 58.

Britain was of course the first industrial nation, and by the mid-19th century British industrial development was admired, feared and emulated by all countries aspiring to maintain their position in a rapidly changing world. However, Britain's position as the first country to undergo capitalist industrialization imposed a distinct and largely unique path of development; one which was not so widely imitated and which had lasting and in many respects detrimental consequences. The chief "peculiarity of the English" was that noted by Disraeli in the above passage: industrialization was a piecemeal, unplanned process based largely on the reinvestment of accumulated family fortunes into small and highly competitive private businesses. The capital requirements of the early period of industrialization were small, the technical innovations fairly simple and the process itself spread over a relatively long time-span (Landes, 1970, ch.2). In consequence there was no need for the development of centralized credit institutions for the funding of industrial investment, and the financial and industrial sectors prospered on the basis of a distinct, somewhat distant rela-

tionship which continued well into the 20th century. As expounded in one influential article:

The industrialization of England had proceeded without any substantial utilization of banking for long-term investment purposes. The more gradual character of the industrialization process and the more considerable accumulation of capital, first from the earnings of trade and modernized agriculture and later from industry itself, obviated the pressure for developing any special institutional devices for the provision of long-term capital to industry (Gerschenkron, p.14).

This is not to say that the financial sector of Britain was in any sense backward or underdeveloped. In fact the "financial revolution" of the 19th century took hold first and most completely in the British Isles. The rise of the great discount houses and joint-stock commercial banks established a firm base for the provision of credit by concentrating the various savings of the growing middle class. But, the banks avoided the "unorthodox" policy of borrowing short and lending long at least in the domestic market; as their deposits were short-term so were their loans, and industry in this period was quite content to rely on retained earnings as the chief source of investment funds with the stock market playing a secondary role. The merchant banks and discount houses were in the business of longer-term finance, but, as they had grown and prospered initially on the finance of foreign trade, their sights remained firmly fixed on the possibilities abroad, avoiding entanglement with domestic industry, which was in any case unnecessary and undesired. Thus arose the particular pattern of British development which proved so crucial in later decades, the country banks available for the finance of short-term commercial credit but avoiding any long-term investment and the financial houses of the City with an almost exclusive overseas orientation (Landes, 1970, pp.74-5 & 205-6).

On the Continent by way of contrast the very backwardness of the credit structure, the late entry into the development process, the lack

of gradually-accumulated family capital and the need to play catch up ball in a period when the initial investment demands of industry were steadily rising, all conspired to create the need for a more highly organized and adventurous financial sector. The particular institution developed to cope with the pressing need for industrial credit was the joint-stock investment bank. While the first successful example of this type of financial institution was the Société Générale founded in Belgium in 1822, it was only in Second Empire France that investment banking found its most fertile soil. The prototype of the new generation of banks was the Crédit Mobilier founded by the frères Pereire in 1852. Émile and Isaac Pereire had been active adherents of the Saint-Simonian brotherhood, although more interested in its economic as opposed to political or religious doctrines. In particular they were influenced by the Saint-Simonian critique of French finance and attempted to put into practice the society's notions concerning the "mobilization of credit" and the "marriage of industry and finance." Louis Bonaparte chartered the Crédit Mobilier as part of his "industrial coup d'état" against the conservative financiers of the hautes maisons, the most notable of which was the house of Rothschild. The latter institutions had been the banking elite of France, the bulwark of petit-bourgeois capitalism, tied politically to the July Monarchy and unfavourably disposed towards industrial investment. James de Rothschild had previously acted as the chief supporter of the Pereire brothers, but whether for political or personal differences the latter had fallen out with him during the republican interlude and with their new-found patronage began one of the great rivalries of the epoch of capitalist industrialization, one which virtually transformed the economic landscape of Europe (Cameron; Landes, 1956 and 1970, pp. 205-210).

The Crédit Mobilier and other new corporate banks which merged

commercial and investment activities engaged in the finance of large-scale industrial projects of the Second Empire, railroads, canals, factories, ports, etc., filling the gap in the credit network which remained unnoticed and unchallenged across the Channel for the next three-quarters of a century. However, they also, perhaps more significantly, engaged in similar projects in other Continental countries, fostering numerous offspring in their own image. The Crédit Mobilier participated in the founding of the Darmstädter Bank in 1853 which in turn played a key role in German industrial development. Following this success the Pereires moved into Austria to help finance the state railway system but were quickly followed by the Rothschilds, who set up the Kreditanstalt largely it seems to exclude the rival firm. The princes of haute finance thus adopted the form of the new institutions in order to maintain their privileged position in French banking, and thereafter the two groups competed in setting up rival companies or projects in Spain, Switzerland, Italy, Russia and Turkey. As a result the total export of French capital in the period of 1850 to 1870 constituted something between $\frac{1}{3}$ and $\frac{1}{2}$ of net realized savings, a proportion unequaled even by Britain during the heyday of the Empire. Whether or not this was detrimental to French economic development, it created a pattern of industrial finance distinctly different from the British model (ibid.).

After the failure of the Crédit Mobilier in 1870 and the fall of the Second Empire investment finance gave way to the more conservative joint-stock deposit banks in the British mold, as exemplified in the Crédit Lyonnais. A legal distinction was now drawn between banques de dépôts and banques d'affaires with the former involved in the collection of personal savings and the latter in commercial finance. The Bank of France now played the crucial role of organizing the credit system,

mainly by offering generous rediscounting facilities to the private banks. French industry developed increasingly along British lines with a preponderance of small, family-owned and self-financing firms and a similarly slow rate of industrial growth. The financial sector turned increasingly towards foreign finance, although by then it was geared primarily towards government loans rather than private industrial projects and with $\frac{1}{4}$ of the total going to Russia by 1914 (Clapham, p.388 and Feis, ch.2).

Meanwhile, the seeds sown by the Crédit Mobilier across the Rhine brought forth fruit thirty-fold. The universal banks which emerged in Germany especially after 1870 combined the functions of an investment bank with the more traditional activities of the commercial banks. They thus rested on a more secure basis than the Crédit Mobilier "with its enormously swollen industrial portfolio, which greatly exceeded its capital, and its dependence on favourable developments on the stock exchange for continuation of its activities (Gerschenkron, p.13)." They developed close relations with industry, financing heavy capital, promoting joint-stock enterprises and buying up shares during a crisis to maintain their price and prevent bankruptcy. Pre-financing became the normal mode of offering credit, i.e., the banks provided investment funds through initially short-term loans which were renewed indefinitely until accumulation allowed for a new capital issue. These securities were then placed in the banks' branches consolidating or replacing the debt. The banks collected savings and organized finance thus "mobilizing credit" in a country chronically short of this resource. The concentration and centralization of banking capital in the last decades of the 19th century facilitated a parallel process in German industry resulting in the intimate relations between the two sectors noted by Rudolf Hilferding in his classic work, Das FinanzKapital (1968). Often even new firms were constructed as joint-stock corporations at the

initiative and with the heavy participation of the major banks. The Grossbänken were thus not merely the agents of finance but often controlling owners, and, while they competed actively for deposits, combination and market carve-up were the rule in their field of operations, hence the term "organized capitalism." Given the subordination to domestic industry, the lack of a rentier class, the protectionist attitudes of the politically dominant Junkers and the chronic lack of capital, foreign investment in the period up to 1914 was minimal. What capital export that did take place was closely vetted by the state which, increasingly nervous about the lack of a German empire to match that of the French or English, ensured that all foreign investments had a direct political pay-off and did not finance the possessions or allies of its national rivals (Gerschenkron, pp.13 and 43, Hu ' , ch.2., Feis, chs. 3 & 6, & Winkler, H., pp.9-57).

The British pattern of financial development was thus quite distinct from that of the Continent (with the partial exception of France after 1870). In particular, the dominant institutions of the City had emerged out of the web of international trade and were oriented primarily towards that market. The joint-stock banks, while not directly involved in overseas finance, none the less never developed an investment function with regard to domestic producers (not that the latter wanted such services) and were moreover indirectly subordinated to the financial houses through the complex network of the flow of money between institutions. The new issue market, in the words of one historian of the period,

was strongly oriented towards foreign lending, largely because of the evolution of the issuing houses from merchant banks connected with foreign trade. The British lenders, living in that age of secure value of money (after nearly a century of predominantly falling price levels) and lacking the floods of British government bonds which descended upon them subsequently in two world wars, seem to have had an appetite mainly for bonds, and to have demanded a rentier's rate of return rather than that of an entrepreneur (A.J.Brown, p.56).

The international direction of British finance was illustrated in the fact that by 1913 "nearly half of the international investments of the world were British owned (ibid., p.47). Of the British total of overseas' investment in that year the Empire absorbed around 47%, a proportion which was still increasing up to the eve of the First World War (Pollard, 1970, p.21). In consequence, one may say that City institutions were primarily interested in the promotion of world trade and long-term foreign investment. This was primarily portfolio investment, although much of it was tied up in industrial construction associated with the cheaper movement of primary goods, especially railroad construction which accounted for as much as 40% of the total even as late as 1914 (Kemp, 1969, p. 193 and Strange, p.140).

The growth of foreign holdings in the period from 1875 to 1914 did not, however, necessitate an increase in the actual transfer of resources through capital export as the latter was more or less balanced by the inflow of income from those investments. In net terms there was no overall growth of capital export, so in effect foreign investment could be viewed as a self-expanding block of capital. Nevertheless, as Barratt Brown points out there was no necessity in reinvesting foreign income back overseas. This seems more surprising given that the rate of return on home investment was apparently higher than on that for overseas ventures (Barratt Brown, 1974, ch.8). Two explanations have been offered for this paradox. Strange argues that on the basis of the high proportion of industrial investment in the overseas total one should see the City as playing an essentially managerial role at least on an international level. A managerial ideology would presumably explain the remarkably patient attitude as regards the return on capital export, i.e., financiers had a preference for capital growth over current yield. Strange associates this ideology with the "top currency" position that sterling exercised in

this period over world trade, as the holders of that currency had a basic interest in consolidating their world-wide position, regardless of the cost of certain lost opportunities in the home market. Thus, the City in this view acted as an investment banker with regard to its formal and informal empire overseas, while it avoided precisely those same sorts of commitments in the domestic industrial sector (Strange, p.141 and Feis ch.1.).

Barratt Brown argues on the other hand that this investment should be viewed as that of a rentier fraction of the capitalist class. He emphasizes that "about half of the capital investment consisted of loans to governments or to mixed public and private enterprises." He catagorizes railroad investment along with public utilities as social overhead capital, which together constituted some 70% of the total and often was backed by state guarantees, whether or not these were broken in practice. British foreign investment was somewhat different from that of Germany or France, as the latter was typically in the form of loans from one government authority to another, but all had a similar object, namely security of income (Barratt Brown, 1974, p.173). His argument is more convincing in that state-backed portfolio investments can hardly be compared to the sort of risk-taking entrepreneurial activities that characterized the German Grossbänken, for example. British capital was, rather, dominated by a rentier fraction of the dominant class, and the economy consequently began to develop in a direction that suited the ideology of that prevailing fraction.

Strange does make a convincing case for the importance of the world role of sterling during this period as a force influencing the structure of British development. She uses a model of currencies which emphasizes political and financial interrelations, in particular the political preconditions for the world use of a currency and the consequent restrictions on the issuing state. She distinguishes four

types of currency; first, a master currency, which applies to the situation when an imperial state imposes its monetary system on a subordinate country severely limiting the latter's monetary autonomy. Second, a diplomatic or negotiated currency, existing when the issuing state has lost its position of outright political dominance and must bargain over the terms of its use. Such declining currencies, like sterling or the dollar in the recent past, must offer inducements to prevent reductions in the holdings of former colonial or semi-colonial possessions. The issuing country, moreover, has a limited array of coercive weaponry, mainly devaluation or the sequestering of funds, which can in any case only be used in moments of crisis and even then only at the cost of further decline in currency's use. A top currency is simply one favoured for international monetary transactions, but its main consequence is that "it induces a peculiarly developed sense of responsibility towards the international economy (Strange, p.5)". A top currency thus circulates outside the area of the issuing country's immediate political control, a role performed by sterling in the 19th century and by the dollar in the twenty or twenty-five years of monetary stability that followed World War Two. Lastly, a neutral currency originates in the strong economic as opposed to political conditions of the issuing country. It none the less does have specific political effects in that its use forces the home country to submit to monetary movements outside its own control thus giving it a strong interest in international monetary stability. The Deutschmark, Swiss franc and the Eurodollar exemplify this type of currency in the modern period, especially the latter as it is outside the control of any one state and subject to quite violent international movements (Strange, ch.1).

As Strange constructs the model, these various functions are not mutually exclusive; the same currency could have different roles concurrently. Thus, sterling was the top currency during virtually the whole of the 19th century and the 20th in the period up to the First World War, its use being virtually coterminous with the extension of commodity relations around the world. At the same time the pound had a master currency function in the countries of the Empire, that is, its use was imposed on the subordinate colonies and semi-independent Dominions. Significantly, this process of establishing sterling as the master currency took a surprisingly long time. In British West Africa and India a British-managed currency was not installed until the 1890s, in Hong Kong not until World War I and in East Africa not until 1920. The period of the extension of both the master-and-top-currency status was thus coincident, indicating the interrelatedness of the two processes. As Strange summarizes,

the political process of acquiring an empire and the financial process of acquiring an international currency were highly interactive. So large an empire could not have been so quickly and cheaply acquired without the incomparable asset of a strong, internationally-used top currency. But, at the same time the international use of sterling as top currency was greatly extended, and invisibly and unobtrusively supported, by the political power and influence exercised by Britain over so large a part of the globe (ibid., p.47).

The key interconnection between the international financial system and the British domestic economy was the gold standard which governed a superficially stable but essentially contradictory and contingent system. In the first place, the system managed to function on the basis of gold reserves in London not much higher than 1.5% of GNP. After the Boer War the supply of gold allowed only a marginal increase in the size of the reserves, from £30 - 35m to £40m by 1914, as against an annual import bill of £635m. Secondly, the Bank of England's position in the financial structure was highly ambiguous, if not

schizophrenic. It was both a private banker and the central bank of the home economy, called upon as lender of last resort, although it refused to publically recognize that role. At the same time, as a consequence of the position of London in the world economy, the Bank regarded the maintenance of the gold standard as its primary duty, with the result that the Bank rate, the central means of defending the reserves, was highly sensitive to international flows of gold and the state of the reserves. Since the main source of strain on the reserves was internal, the Bank rate was typically raised during booms and lowered during slumps, but not directly in relation to internal demand but only indirectly through the position of the Bank's gold and currency reserves. At the same time higher rates successfully attracted short-term capital, effectively controlling gold flows in and out of the country. However, the rate was only lowered when the market rates dropped sufficiently and the gold reserves were not endangered, so there was no automatic impulse to push rates down even when reserves were sufficient (Sayers, Vol.I, ch.3).

The internal instability was due to the growth of the joint-stock banks, which were not only outside the "political" apparatus of control, the so-called "inner circle" of established accepting houses and merchant banks, but were under no form of monetary discipline, having no obligation to hold their deposits in the Bank of England. In periods of crisis when overextension led to a rush for liquidity and panic, the Bank simply lost control of the money market, as demonstrated in the Baring crisis of 1890. While the Bank and the "inner circle" managed to preserve their authority despite this rather severe crisis, the anarchic structure of the credit system and the contradictory position of the Bank of England remained hidden but ever-present sources of instability right up to the eve of World War I. The underlying

conflicts then burst into the open even before the declaration of war, as stock brokers, who had lent short-term abroad were caught by the closures of the foreign exchanges. The joint-stock banks, at this time net creditors to the "inner circle" institutions, had no confidence in the capacity of the Bank of England to act as lender of last resort and began to call in their loans. The suspicions of the bankers at this point were so great that they even considered setting up their own alternative gold standard and formed a Gold Committee for that purpose. While nothing came of these efforts and the crisis was resolved through the frantic efforts of Lloyd George, Keynes and others, the instability and tenuousness of the gold standard system even in its moment of greatest glory foreshadowed events of later decades when the contingent factors that allowed it to operate virtually evaporated (De Cecco, chs. 5 & 7).

The gold standard worked during this period because the massive increase in capital export and foreign lending was matched by increases in British exports. Similarly, the Bank rate was equal to its appointed task of drawing in gold or foreign currency in moments of strain on the reserves, although this led to some discontent among industrialists at the frequent rises in interest rates by comparison to the steady cheap money available on the Continent (Sayers, ch.3). Increases in Bank rate did not implant the fear of devaluation in the minds of foreign holders of sterling, as in later years, so, despite the periodic expressions of underlying structural contradictions, the Bank's ability to cope with crisis inculcated in all sectors of British capital an identification of prosperity and industrial and financial supremacy with the existence of a London-based gold standard. As long as the preconditions for its effective operation remained present, this ideology corresponded with the real position of sterling as the world's

top currency as well as with Britain's role as the pre-eminent trading power. Of course after World War I the global situation changed rather dramatically, however,

the ideas about Britain's role in world affairs and British foreign and economic policies which this heyday of sterling propagated so effectively...long outlasted the peculiar and largely fortuitous circumstances that gave them birth (Strange, p.47).

While the export position apparently allowed for the increase in foreign investment, this superficially healthy balance concealed a gradual erosion of British industrial strength especially in the markets of the advanced capitalist world. The British share of world manufacturing production dropped from 31.8% in 1870 to 14.0% in 1913, while the share of world manufactured exports over the same period declined at a slightly lower rate from 40% to 27%. The industrial position was steadily deteriorating in the face of German and American competition, but,

Britain could go on investing abroad mainly because she had found a 'preserve' for her exports in the Empire. The Empire exported to the rest of the world and imported from Britain (De Cecco, p.ix).

India was the linchpin in this system, as the earnings from her high trade surplus were deposited in London and held as part of the official reserves defending the gold standard (De Cecco, ch.4, A.J.Brown, p.47, and Gilpin, ch.3).

The extent of foreign investment was truly massive. Increasing roughly 250% between 1870 and 1913 it totalled £4 billion by the latter date, absorbing fully one-half of national savings. About half of British assets were abroad on the eve of World War I, and the income from these investments constituted 10% of national income. This investment went increasingly to the countries of the Empire, 43.5% in 1890-1914 as opposed to 35.5% in 1870-89, and grew in step with and in response to domestic industrial decline. In the simplest terms

the City was responding to the lack of a guaranteed income in the domestic market by funnelling its resources abroad, and the consequence for Britain was the progressive decadence of the industrial sector, the emergence of a truly rentier economy (Gilpin, ch.3 and De Cecco, ch.2).

It is important to recognize that British industrial decline was by no means inevitable, although some loss of markets to the emerging industrial powers was, of course, on the cards. It was the result, rather, of a political-economic strategy under the hegemony of the City to which British industry acquiesced rather than face the more difficult task of meeting foreign competition in the advanced sectors head on. The growth of portfolio investment overseas not only resulted from industrial deterioration but contributed directly to that very process, the first of the "vicious cycles" that plagued the British economy in later years. From 1870 when foreign investment first exceeded domestic fixed capital formation, the former rose just as consistently as the latter fell, from 39% of GNP in 1865-75 to 7% in 1895-1905, indicating the extent to which the two were practical alternatives. In comparative terms the percentage of national product devoted to domestic capital formation was about one third the American figure and 60% of that common in the major European countries (A.J.Brown, p.55 and Gilpin, p.93). Indeed, the amount of real investment in this period may not have been enough to maintain the existing stock of capital (Hobsbawm, p.192).

The extent of industrial decadence is indicated not only by such quantitative measures enumerated above but by the equally significant qualitative aspects, the failure to develop new products and processes and the structure of the industrial sector. With respect to these aspects as well the existence of the Empire had serious deleterious consequences. While of course the official policy of the British government and ruling class was a doctrinaire commitment to free trade,

various informal relationships ensured that British exports received favourable treatment in the dependent countries of the Empire. Only British-owned enterprises were allowed to operate in India, and in other countries an unofficial policy of "buying British" was the rule (De Cecco, p.29). The fear of foreign penetration of these markets led to an increasing clamour on the part of British industrialists for a more formalized system of protection, a point to which I shall return shortly. However, as a result of the "informal" captive market and the low rate of investment, industrial capital chose to exploit its favoured position by selling more of the old products rather than move into the advanced sectors where foreign advantages could not be avoided. The core of British industry continued to be the traditional sectors of the "first industrial revolution," coal, textiles, iron and shipbuilding, while in the newer areas of chemicals, electronics and automobiles Britain lagged considerably behind the new leaders. Likewise, British industry was slow to adopt the new techniques of production, failing to mechanize or electrify existing processes, even in the traditionally strong sectors. Technical and scientific education was, as often noted, much neglected by comparison to Germany or the U.S., although this was not the case in the provision of specialized technical training for workers, which was probably the best in Europe if not the world. The hostile reception given to the proponents of scientific management in the period also exemplifies the extent to which conservative and complacent industrialists were prepared to rely on the greater exploitation of existing methods and markets rather than adapt to the harsher environment of advanced capitalist production (Levine, chs. 2 & 4, Turner, ch.1, Gilpin, ch.3, Hobsbawm, ch.9, Phelps Brown & Handfield-Jones, and Coppock).

Industrial backwardness was finally manifested in the small size of British firms and the prevalence of family control in the manufacturing sector. From the 1850s the necessary legal changes had taken place

to allow for the development of joint-stock corporations, and by the 1880s this form was beginning to be widely adopted. Between 1885 and 1907 the number of domestic firms publicly quoted rose from 60 to 600. During economic booms financial syndicates promoted merger issues, counting on the inflated values of the stock of the combined enterprises over the aggregate value of the individual firms as a source of speculative profit (Hannah, p.22). Yet, at the same time the stock market did not contribute appreciably to industrial capitalization, since, "in the years before the [First World] War only 10% of real investment in this country was made by issues of industrial firms through the London Stock Exchange, and only 3% by new industrial firms (Pollard, 1969, p.18)." Moreover, while the merger movement in Britain at the turn of the century was more intense than at any earlier period in the 19th century, it was dwarfed by comparable events in the U.S. and Germany. Hannah, for example, estimates that in 1899 255 firms disappeared by amalgamation in the U.K. with a total value of £22m, while in the U.S. in the same year 979 firms were absorbed through mergers with a combined value of over £400m. The concentration of productive capital in the rapidly advancing countries was in other words of a completely different order of magnitude (Hannah, ch.2). Likewise, the industrial partnership and family enterprise remained the typical unit of British manufacturing. Even in 1914 four fifths of joint-stock corporations were private, and those nominally public often retained the previous entrepreneurial families in key managerial positions (Pollard, 1969, pp.10-14 and Hannah, op. cit.). In other words such mergers as occurred took the form of "decentralized trusts," aggregates of distinct firms which did not fuse into a new organizational structure and as a result simply reproduced the backwardness of the original companies, each division still run by the former owning families which placed the interest of their particular firm above that of the collective trust.

These combinations were based on a horizontal principle, rather than the vertical monopolies that predominated in Germany and the U.S. They were in essence purely defensive combines, occurring for the most part in the consumer goods and textile industries rather than in the growth sectors of the "second industrial revolution (Medick, pp.61-62)." The trustification movement, so important to Hilferding's analysis of "organized capitalism," had simply not taken place in Britain by this point, although centralization had occurred to a significant extent in the financial sector by 1914, especially through the growth of the joint-stock banks (Pollard, 1969, p.14). British industry appeared to have ossified, retaining the structure of the first industrial revolution, a structure whose institutions ran throughout the British economy and which was supported by a vast imperial network that effectively prevented any urgent sense of the need for a rapid transformation with its consequent dislocation and social strife.

The sole significant exception to this state of backwardness was in the strongly interconnected defense and shipbuilding industries. This sector alone was characterized by the large size of the component combines, the two dominant trusts being highly centralized and vertically structured in the German or American mould. Significantly, this exceptional state was the result of specific state intervention and tariff protection, the only sector in which the necessities of imperial defense undermined the prevailing laissez-faire ideology. The unique status of the armaments industry gives an indication of the extent to which the liberal political economy had to be overthrown in order to effect the progressive transformation of British industry (Medick, p.62). The fact that this was the only area where the Tariff Reform campaign achieved even limited success in the decade before World War I seems hardly coincidental, a matter I shall take up more fully in the next section.

The Political Relationship of Finance and Industry:
'Free Trade Imperialism' and Tariff Reform

The dominance of the City and the emergence of a rentier economy were reflected as well in the operations of the political system. Just as economic activity increasingly flowed along a course chartered by finance, so the priorities expressed in state policies corresponded to their primary concerns, namely defense of the international monetary system and preservation of a political economy favourable to the free export of capital. While industrialists largely accepted the rule of finance in matters considered as their sphere of expertise, i.e., the operation of the gold standard and money markets, from the turn of the century they began to voice increasing concern over the indications of industrial decline and to demand some sort of counter-active measures. However, the course of treatment prescribed by industrial leaders was designed to treat the symptoms rather than the disease, for in many respects industrial capital was far too wedded to the existing system to contemplate the truly radical measures necessary to secure regeneration of the productive sector. In particular they never faced up to the debilitating consequences of massive capital export (nor have they in subsequent years); indeed, most of the proposals for formalization of the imperial network included the aim of continuing extensive overseas investment but simply wanted it tied more closely to political objectives.

The political regime dominant at the turn of the century was in all essentials that which had triumphed in the middle years of the 19th century with the repeal of the Corn Laws, the passing of Peel's Bank Acts and the extension of electoral suffrage to the emerging middle classes. The social basis of this regime rested on an implicit alliance between the major industries of the industrial revolution, in particular the textile firms of Manchester and Lancashire, and the City, what one

author has appropriately termed a "marriage of cloth and gold (Kurth)." As accumulation in textiles and other early industries could take place without active promotion on the part of either investment banks or the state, these industrial entrepreneurs made common cause with the financial sector for a programme with essentially negative aims, i.e., oriented towards eliminating the barriers to the free movement of goods, capital and labour. The political institution which arose to serve this coalition crystalized in the form of the liberal state, systematically and self-consciously removing the political controls on both internal and external markets. As British industries in this period could rely on their initial economic supremacy to capture foreign trade, they had no need for specific political instruments to guarantee their success abroad or protect them from foreign competition at home, apart from the need for a strong navy to secure the "rule of law" on the high seas. "Manchester liberalism" and "Parliamentary sovereignty" were thus the political hallmarks of the British bourgeois revolution (Kurth, and Polanyi, chs. 12-15).

Yet, even at the height of the triumph of liberal doctrines a strong imperial logic lay beneath these espousals of non-interference and free trade. A dual conception of empire was prominent in the thought of the early liberal reformers based, first, on the informal dominion of Britain through her unequalled position as "workshop of the world," and, second, on the imposition of a formal empire through direct appropriation and colonization of those areas of the world not yet penetrated by capitalist relations of production. While differences existed over the extent to which the exercise of direct political control was necessary in overseas territories, even the Radicals supported imperial aims in the informal sense. They simply believed that the natural superiority of British enterprise obviated the need for direct political domination, hence the appropriateness of the term "free trade

"imperialism" to characterize that combination of gunboat diplomacy and commercial domination that typified the international political economy of the liberal regime (Semmel, 1970, Barratt Brown, 1974 chs. 2, 5 & 6, Platt, Gallagher and Robinson, and Cain and Hopkins).

The consolidation of this informal empire in the first half of the 19th century paved the way for the policies of capital export in the face of domestic decline in the decades following 1870. In contrast with the more overtly imperial logic in the overseas operations of the emerging German Reich, relations between the state and the financial institutions in Britain were always at arms length, based on shared understandings rather than official commands. The main channel for communication between financial leaders and government officials, then as later, was the Bank of England with its useful position as both banker to the state and central organization for the City. Consensus on economic policies was also established through the social means of communication, the London clubs as well as the old boy networks and even the country weekends or hunting parties, and through the medium of the Houses of Parliament where financial as well as industrial interests had their quota of seats. This sometimes almost casual mode of communication was none the less highly successful in ensuring that the priorities of the City and the strategic aims of the British state were well co-ordinated, almost fused in a symbiotic relationship. The process by which this hegemonic bloc operated has been well described in the famous work by Herbert Feis:

In a variety of ways suggestions passed back and forth between the financial world and the government, subtle indications of each others judgement. For the absence of any formal official requirement that the government be consulted before the emission of foreign loans did not mean that there was no interchange between the government and those engaged in the loan business. The course of foreign investment was pointed in unofficial discourse between those who shaped the country's political and financial behavior (Feis, pp. 85-6).

This, then, was the position facing industrialists at the turn of the century, an economic system premissed upon their continuing decline and a political regime entwining financial interests in the heart of the state totally committed to the free-trade doctrines of Victorian Britain. Industrial capital, however, drew benefits as well from the imperial system, even given its informal, complacent political directorship, most notably through the provision of more or less captive markets for British goods. While it would have been against the short-term logic of their economic position to make a dramatic break with a system which offered such convenient outlets for obsolescent goods, even if at the cost of their long-term viability in the advanced capitalist environment, they increasingly did question the parameters of orthodox political economy as foreign competitors began to demonstrate the superiority of new methods and organizational structures of capitalist enterprise. Paradoxically, their response was to advocate the consolidation of the informal and haphazard system of concealed imperial partiality into an explicit and official regime of Empire protection, a policy which, while promising short-term benefits, could and ultimately did reinforce those same attitudes of complacency, underinvestment and lack of specialization leading in the long run to a return of the "vicious spiral" of industrial decline.

The strategies advocated by industrialists in the period from 1900 to World War Two to combat their relative decline in the world market and the recurrent experience of depression at home largely followed one of two paths: on the one hand the move towards imperial autarky, the creation of tariff walls around the Empire and the consolidation of more or less captive markets for British exports; on the other the concentration of industrial capital into large corporations capable of competing with German and American firms, particularly but

not exclusively in the "science-based" industries of the second industrial revolution, chemicals, petroleum, automobiles and electronics. These two strategies were by no means exclusive of one another; indeed, they could be and often were seen as complementary and mutually reinforcing. The crucial difference between them was that the former required political direction in turn implying the need for overturning the main orientation of economic policy and the organizational capacity to effect that change. As I shall describe later, the failure of the first strategic aim, that of tariff reform (at least until the 1930s), turned industrialists in general toward the alternative of consolidation and merger, especially in the 1920s. In turn the failure of the "planning" and "rationalization" movements of that decade to secure the needed stability of both international and home markets led to a renewed effort in the direction of imperial protection, cartelization and autarky, and, ultimately to the posing of perhaps more fundamental questions regarding the whole system of finance. In the period under consideration, however, the conflict within the ranks of capital largely crystallized around, on the one hand, industrial interests, particularly in the iron, steel and engineering trades based in the Midlands, and, on the other, financial interests, particularly those sectors engaged in the international capital market, the so-called inner circle of merchant banks, discount houses, the stock exchange and the associated insurance companies under the titular leadership of the Bank of England.

The first expression of industrialists discontent with a political regime based as ever on the "marriage of cloth and gold" and pursuing the overseas policies of "free trade imperialism" dominant since the mid-19th century emerged with the founding of Joseph Chamberlain's Tariff Reform campaign in the first decade of the 20th century.

Chamberlain, a screw manufacturer and former mayor of Birmingham and without doubt the most significant political figure of his time, was responding to the rising concern of Midlands manufacturers, in particular their worry over their declining position with regard to the emergent industrial giants abroad. Chamberlain was no narrow-minded pork-barrel politician, however, and his achievement, though by no means his alone, was to paint the interests of his political base onto a wider canvass, an imperial triptych of Zollverein, Kriegsverein and Staatsverein (Blake, p.177).

Chamberlain had begun his career as a Radical Liberal in Birmingham, as part of the "liberal caucus" that gave the label its modern meaning, involved first in the local "civic" policies of "municipal socialism," which were later extended to the national political stage. The Chamberlains were one of a key group of provincial, Non-conformist bourgeois families, including the Cadburys, the Lloyds (whose family firm later formed the base for GKN) and the Calthorpes, whose business interests were centered on the light engineering and consumer good industries which dominated the region. Entering national politics with his reform mantel fully established, he broke with Gladstone over the Irish Home Rule Bill of 1886, a major factor in the splitting of the Liberal Party at that time and an event which plagued the rest of his political career. Much of the latter was spent in the pursuit of a programme which might unite both aspects of his political inspiration, social reform and the nationalism of a "Greater Britain." By 1895 he had become Colonial Secretary when the Liberal Unionists joined Lord Salisbury's Conservative government, and it was really at this point that his new vision of the progressive path for British development was consolidated. He played a prominent part in the Colonial Conferences of 1897 and 1902, attempting to secure support for a system of

imperial preferential tariffs, accepting even at an early date the Canadian suggestion that cereals, wool, meat and sugar be included in such a scheme. Little came of these conferences apart from the further confirmation of Chamberlain's vision that greater unity within the Empire was possible and would be supported by strong elements abroad, at least in the White Dominions. Chamberlain, it seems, was "bbsessed by the feeling that the United Kingdom, in the modern era, was in no position to compete with the monolithic strengths of nation-states like Germany, Russia, Japan or the United States," and a reinforced Empire, even imperial autarky, offered to his mind a means of breaking with Victorian complacency and retaining the political and economic power of Britain in the face of the rising continental nations (Gollin, p.3).

The Boer War finally offered the opportunity to raise preferential tariffs as a concrete and practical political issue. Not only did the War expose military weakness and the need for social reform if the working class was to be either fit or willing to defend British capital from foreign encroachment or the uprisings of native populations, it had placed an increased burden on the Treasury which as a consequence had to find additional sources of revenue to meet existing payments, let alone cover the cost of any programme of extending social welfare provisions. In his Budget of April, 1902, Sir Michael Hicks-Beach, the Chancellor of the Exchequer, proposed to revive the duties on corn, meal and flour in order to raise the needed revenue. Liberal misgivings turned to alarm when Chamberlain used the opportunity to call for imperial unity and to attack the "economic pedantry" and "old shibboleths" of free-trade orthodoxy at a speech to the Birmingham Liberal Unionist Association on 16 May. (Gollin, p.25). While it is not my intention to investigate the political crisis precipitated by those events, a few comments are in order to indicate certain features of the exercise of political power which recurred regularly in later crises.

In the first place the centre of free-trade resistance to the tariff proposals within the state was the Treasury itself. When Charles Thomson Ritchie succeeded Hicks-Beech as Chancellor, he was determined not only to resist future tariffs but to repeal those already on the statute books. In this struggle he was supported by Sir Francis Mowatt, the Permanent Secretary to the Treasury, in pressing the issue in the Cabinet as one of principle (Gollan, p.48). Even the Prime Minister, Arthur Balfour, had to rely on outside economists, especially Peter Ashley, for assistance in preparing his submissions to the debate, as the Treasury was blindly committed to free trade (*ibid.*, p.88). This resistance was successful in that it prevented Tariff Reform from becoming the policy of the Balfour government, although only through the sacrifice of the free trade ministers in the Cabinet in the political crisis of September, 1903. By then Chamberlain was convinced that he would have to undertake a massive propaganda campaign to win support for his imperial programme, and he consequently resigned at the same moment to devote himself totally to this end. Balfour was naturally relieved since he thus had a free hand to manoeuvre the Cabinet in accordance with his desires for the rest of his term of office, having only to contend with the much more pliable son of his great adversary, Austen Chamberlain. He was in this way able to hold on to power and complete his programme of imperial defense: the reorganization of the War Office, the development of new weaponry, the initiation of a "naval revolution" entailing the construction of a new top class of battleships (the Dreadnought) and the conclusion of the entente with France and the defensive alliance with Japan. As pointed out earlier, these measures of state support for rearmament were the only area of success for the tariff reformers, creating the basis for the only truly modernized sector of British industry and consequently winning for Balfour the support of the armaments and steel industry. At the same time

they helped to ensure ultimate defeat at the polls in 1906 as the governing party became bitterly divided over the wider issues raised by the Chamberlain campaign (Gollan, ch.15).

In the autumn of 1903 Chamberlain embarked on his crusade "to replace the easy drifting of the age of Free Trade with a system based upon ordered, rational and scientific thinking (Gollan, p.190)." The social imperialists organizing the Tariff Reform League's campaign "for the defense and development of the industrial interests of the British Empire," included prominent industrialists apart from those wedded to and not yet suffering from the traditional alliance of "cloth and gold," namely the woolen and textile trades who sided with their City partners (Semmel, 1960, pp. 101-3). Yet, the principle difficulty of the Tariff Reformers was not the winning of support from troubled industrialists but, rather, securing a base in the enfranchised sections of the working class. The latter had, of course, largely fallen under the tutelage of the Liberal Party and, even as they were beginning to break away with the formation of the Labour Party, remained committed for years to come to the Liberal principles of free trade and the "cheap loaf." The intent of the social or preference imperialists was to win the working class, or at least some part of the labour aristocracy in the declining trades, to support a "producers' alliance," a Bismarckian programme of imperial tariff and social reform, utilizing the increased revenues to finance state-supported welfare measures, "homes for heroes" as put in the later imperialist slogan. Chamberlain no doubt erred in this campaign by insisting from his first speeches that a tax on food would be necessary, an approach which could only alienate potential working class support. He was no doubt motivated in this by the contradictory need of making concessions to the primary producers in the Colonies and White Dominions, those who had much to gain from a system of imperial

autarky, not to mention the traditional landed interests of the Tory Party who were still highly influential and had been badly affected by the fall of grain prices in the Great Depression. None the less, Chamberlain's overt insistence on this point gave his opponents an easy target and contributed significantly to the defeat of the campaign.

The opposition was equally committed to an imperialist strategy but one based on the orthodox principles of free trade. Liberal or "cosmopolitan" imperialists, in Semmel's terms, including noted politicians like H.H. Asquith, Sir Henry Fowler, Sir Edward Grey and R.B. Haldane, founded the Liberal League supporting Roseberry's contention for leadership and confronting head on the campaign for tariff reform. They too favoured social improvements in education and housing, as well as temperance, in the interest of national efficiency and as "a condition of national fitness equal to the demands of our Empire - administrative, parliamentary, commercial, educational, moral, naval and military fitness (Semmel, 1960, p.63)." However, free trade imperialists opposed the protectionist policies of the preference imperialists, proposing instead direct taxes, particularly a land tax, as the means of financing the necessary reforms. Not surprisingly they had close links with the City, in effect constituting the political wing of high finance. The City of course looked on protection as an anathema, seeing the system of free trade based on the gold standard as the basis of their world position and hence British prosperity. As Sir Halford Mackinder, a leading theorist of liberal imperialism who later converted to the neo-mercantilist or protectionist position, expressed the nature of the controversy,

This gives the real key to the struggle between our free trade policy and the protection of other countries - we are essentially the people with capital, and those who have the capital always share in the proceeds of the activity of brains and muscles of other countries (cited in Semmel, *ibid.*, p.168).

The debate between neo-mercantilist and free trade imperialists explicitly recognized a conflict of interest between the two major fractions of British capital. Free traders like the early Mackinder even publicized the view (in the Journal of the Institute of Bankers) that, "the financial importance of the City of London may continue to increase, while the industry, at any rate, of Britain, becomes relatively less," believing that the returns on overseas investment and the finance of world trade would more than compensate for industrial decline (Mackinder, p. 271). Neo-mercantilists like Austen Chamberlain deplored these tendencies, insisting that only the growth of the "productive sector" would bring an end to rising unemployment and offer a secure basis for national power. In terms of bourgeois support the free traders banked on the City together with those sectors of industrial capital which depended on international trade yet had not felt the threat of severe foreign competition, namely wool and cotton, and that which received state support without a general preference policy (thanks to Balfour) because of military needs, i.e. shipbuilding and armaments. Preference imperialists had their base of support in the Midlands manufacturing sector but received aid and succour from outside the country, mainly from the primary producers of the White Dominions, though of course nascent industries in the latter countries had serious objections to a system which would flood their markets with cheaper British imports.

In the end Chamberlain's campaign went down in defeat, in the final analysis because the leaders of the labour aristocracy remained unconvinced for good reasons that eliminating free trade would not raise the cost of food and thus reduce living standards. However, the efforts of the social imperialists did not end with the Liberal victory of 1906, as indeed they appear to have consolidated their hold on the Conservative Party in the next few years thereafter. Tariff reform was

a major factor behind the Tories rejection of the Liberal Budget of 1909 in the Lords, but it effectively breathed its last gasp in the pre-war period in October, 1910, when Lloyd George approached F.E. Smith, leader of the Unionists, with a proposal for an national coalition, a precursor to the "Government of Business Men" under his leadership on a platform of military training, naval armament, imperial preference, national insurance and Irish home rule. However, this attempt at political realignment of a bourgeois bloc fell apart over the other divisive issue of British politics, the Irish question, and by November, 1911, even the Unionists, once the bedrock of the Tariff Reform League, had dropped the preferential clauses of their tariff proposals. As I shall argue in the next chapter, the ~~that~~ house conditions of the war economy allowed for the growth of protectionist policies from their initial seed bed in the armaments industries, a process which continued in a piece-meal, empirical fashion over the first post-war decade. However, free trade remained the dominant principle of economic policy until the complete devastation of the world trade system in the crisis of 1931-32 cleared the ground for a green revolution in foreign economic relations. None the less, the periodic efforts of important sections of industrial capital and its political spokesmen to hack away at some of the overgrown precepts of orthodoxy indicate the extent of their commitment to the reform programme despite political failure. The vastly improved economic position of British industry during the war obviated the need for any radical change in overseas policy, but once the post-war depression set in they again renewed the drive for imperial protection, although by then the other current of industrial defense, namely reorganization and concentration of capital, took greater prominence.

Chamberlain's efforts were certainly a mixed blessing from the point of view of industrial capital. He was at least the catalyst in the

fissure of two major bourgeois parties during his lifetime, the Liberals and the Unionists, and his final campaign failed virtually totally in political terms. His activities as Colonial Secretary from 1895 to 1903, when he first promoted imperial development, and as back-bench propagandist from 1903, when he stumped the country for imperial unity, did, however, lay the basis for the protectionist structure finally erected in the 1930s and only dismantled in the end with British entry into the EEC. Yet, this very system, while no doubt unavoidable and obviously attractive in an era of sometimes concealed and sometimes overt trade war, at the same time allowed British industry the space to delay radical restructuring until finally forced by the penetration of even protected markets to adopt (in part) the methods and organizations of other advanced capitalist powers. The political economy of imperial preference also, paradoxically, laid the basis for the resurgence of the City in the 1950s, albeit in an altered form as I shall argue later. In short the effects of imperialism were never simply beneficial to the domestic economy of the home country, as some theorists would have it, particularly when one looks at the long-term structural effects. Rather, imperialism has often offered a soft option to that of radical restructuring or the adoption of costly methods of more advanced firms with attendant social dislocation and disruption, and the easier road has necessarily had negative long-term effects, so long as the host country remained integrated into a capitalist world system (see also Gilpin).

CHAPTER THREE

Conflict and Compromise, 1914-39

The First World War was of course a watershed in British history. The changes introduced during that short period covered such an extensive area that it is impossible here to do anything more than underscore some of the more salient features with regard to the relations between capital, labour and the state. The determining aspect of the war condition was the gradual extension of state control over the economy and the consequent suspension of market forces in key areas of the productive process. Although the government's rallying cry at the start of hostilities was for "business as usual," with the recruitment of a "government of businessmen" under Lloyd George the state began to assume in a piece-meal fashion,

direct control of productive capacity, either by taking over the management of firms, as in the case of the railways, the National Shell factories, the collieries, the flour mills and the Irish Distilleries, or control by requisitioning of output or licensing; there was state purchase of raw materials, especially abroad; there were restrictions of dealings, especially imports and exports, by licensing and other means, and similar restrictions of capital expenditure (Pollard, 1969, p.47).

The state managed the major transport systems, purchased 90% of imports and marketed 80% of home food supplies. It similarly either controlled prices of many goods or sanctioned price-fixing agreements among affected producers and assumed direction of the labour supply, suspending the long and painfully established rights of workers and trade unions.

While most of these features evaporated quickly with the end of the war, they did leave a permanent imprint on such areas as labour relations, methods of production, the use of tariff protection and most importantly the organization and structure of industry. In all of

these spheres the reversal of laissez-faire policy entailed nothing short of a transition to the political economy of "organized capitalism," albeit on only a transitory basis. Reconstruction saw the revival of orthodoxy and the attempt to revert back to liberal principles (much as following World War Two), but the experience of the regime of "war socialism" made a definite impact both practically and ideologically. Not only were certain of the organizational changes irreversible in any absolute sense, but for many industrial leaders and their political representatives the model of state regulation and discipline was firmly implanted as an alternative to the anarchic structure of liberal capitalism (Wendt). In later years of economic and social crisis they revived this model of a corporatist regime as the programmatic framework for the complete overhaul of British society; the common war background of virtually all of the corporatist polemicists of the 1930s testifies to the long-term ideological significance of the war system despite the liberal roll-back instituted during reconstruction.

On the labour front, following the truce between the government and trade union leaders embodied in the Treasury Agreement of March, 1915, and later in the Munitions of War Act, the "dilution" of the skilled trades through the employment of women and other unskilled labourers at tasks formerly reserved for craftsmen not only undermined the privileged position of the labour aristocracy (and caused some of worst social conflict in 20th century British history), but it cleared the resistance from below to the installation of labour-saving automatic processes, such as the conveyor belt, accompanied by the detailed division of labour and the use of payment-by-results systems. The successful integration of trade union leaders as junior partners in the war-time state system also raised at least the prospect of a new mode of social control through co-optation, although this strategy appeared far too risky for most industrialists except under the ex-

ceptional conditions of war. The bid to placate trade union expectations that government supervision and/or control would continue into the post-war period reached a high-water mark with the proposals of the Whitley Committee in 1917 for Joint Industrial Councils on national, district and plant levels as a means for the peaceful arbitration of industrial disputes. Yet, while these Councils (or Trade Boards as referred to in the second Report) were extended over a number of minor trades, they never received significant government backing and rapidly faded in importance except in the case of the Civil Service. In labour relations the post-war reversal was fairly complete, although the use of industry-wide bargaining among all grades of workers in place of local agreements primarily with craft workers did spread rapidly afterwards on the basis of the war experience. *Laissez-faire* policies prevailed in the immediate aftermath of reconstruction, but the example of state supervision remained as a model for future reference when the need again arose for trade union co-operation (Pollard, *ibid.*, pp.76-88, Wendt, pp.130-133, and Hinton).

The war likewise stimulated interest in and the introduction of new methods of production. The government supported such interest directly through the founding of the Department of Scientific and Industrial Research in 1916 and encouraged industrial groups to set up their own collective research organizations. While the effects of these efforts were felt most acutely in engineering, as mentioned above, state inducement and war-time expansion also led to rapid technological change in such industries as chemicals (especially dye-stuffs), optics, electronics, automobiles, precision glass and machine tools as well as the extension of the use of basic open-hearth technique in steel-making. The imposition of price and profits controls on a cost-plus basis facilitated the introduction of modern forms of book keeping

associated with the schools of "scientific management." In the chemical industry state financial support was of key importance in the founding of the British Dyestuffs Corporation in 1918, later one of the firms involved in the formation of ICI and one of the industrial bases of support for tariff protection in the interwar era. In general the interest in industrial research went hand in glove with the expansion of productive capacity and industrial reorganization induced by the war. Industrial capital awoke to the potential benefits of amalgamation and association when coupled with collective research and price agreements among competitors (Wendt, pp.133-136 and Pollard, *ibid.*, pp.53-62).

The McKenna Tariff of 1915 finally achieved what the Tariff Reform campaign had been unable to accomplish, namely the first breach in the hitherto impregnable fortress of free trade orthodoxy. The conditions of total war quite simply forced the government to seriously consider the capacities of the Empire to provide the basic raw materials and foodstuffs necessary for British survival, particularly given the German strategy of economic war through the unrestricted use of U-boats. The Imperial Conference of 1917 gave official sanction to the call for greater unity to secure Imperial independence in basic materials and industries through some measure of Imperial Preference. While protective measures had been introduced by the government in any case, particularly in chemicals, the Report of the Committee on Commercial and Industrial Policy after the War under Balfour, including representatives of the textile, shipbuilding, iron and steel, electricity, and engineering industries along with the prominent Tariff Reformer, W.A.S. Hewins, renewed the demand for the new, science-based "key industries" even after reconstruction. This policy faltered as well during the period of liberalization, but it did achieve some success with the

trade associations the basis for a new set of industry-state relations for the process of reconstruction. The direct result of these efforts was the creation of the first successful peak organization of industrial capital on a national basis. Dudley Docker was one of the leading figures of the time, a manufacturer whose vision of Britain's future encompassed,

a completely integrated society and economy, in which each industry would have its own organization of workers and managers, the two sets of organizations united by peak federations, and all finally capped by a great national forum of workers and managers and employers, embraced by the protection of an Imperial Tariff (Blank, 1973, p.14).

In early 1916 Docker initiated a gathering of industrialists representing some 100 firms primarily based, like his own, in the Midlands engineering sector which led to the formation of the Federation of British Industries. These efforts were hampered from the start, however, by the existence of two other nascent peak associations, the British Manufacturers' Association, likewise based in Birmingham but oriented essentially towards tariff reform, and the Employers' Parliamentary Association, centered by contrast on the cotton and textile industries of Manchester and, reflecting the continued division of industrial capital, committed to free trade. While neither of the two alternative associations were able to overcome their local and sectional framework, the absorption of the Manchester group into the FBI in 1916 required the abandonment of protection as the precondition for a national industrial organization. The Federation quickly spread its cover to the bulk of the industrial sectors of the economy, but the continued divisions within productive capital meant that FBI policy was vitiated by the compromises necessary for unity. The FBI consequently began with the lowest-common-denominator approach that characterized it for much of its subsequent history, effectively preventing bold initiatives even during periods of severe economic

Safeguarding of Industries Act of 1921 and the Dyestuffs (Import Regulation) Act of 1920. The former was in particular the result of the efforts of the remaining Chamberlain supporters, organized in Parliament in the British Commonwealth Union and the Unionist Business Committee, and while limited to "key industries" was extended to cover some other sectors during the 1920s. Thus, if the war did not result in the whole-hearted adoption of a preference policy, it did lay the groundwork for the ultimate victory of the neo-imperialists like L.S. Amery and Neville Chamberlain in 1932 both through securing the partial acceptability of protective measures on a case-by-case basis and through its indirect revival of imperialist ideology and organizations (Wendt, pp.136-139 and Pollard, *ibid.*, pp. 193-195).

The system of war controls had its greatest effect, however, on the organization and structure of industry, in particular through the direct encouragement given to trade associations and peak organizations. The system of direct controls could only be made effective if it secured the active co-operation of the manufacturers. Any ideological objections were diffused through the simple and practical expedient of "administering production controls through agencies headed and directed by businessmen," setting in this area as well a precedent for state control in future times of national emergency (Hurwitz, p.150). The above-mentioned innovations in industrial research, the protection of key industries and labour relations were closely inter-related with the state-supported development of industrial organizations for commercial and political ends. Industrialists had their first taste of "functional" economic organization, and the lessons of war-time co-operation were not forgotten when the contradictions of competitive capitalism erupted with a vengeance in the inter-war years (Pollard, *ibid.*, pp.53-62 and Harris, pp.36-38).

Some of the "new breed" of industrialists saw in the emerging

crisis (Blank, *ibid.*, pp.13-15).

Indeed, the political weakness of industrial capital was further indicated by the FBI's early dependence on state support. In particular the Foreign office appears to have played a major role in stimulating its creation and early growth. Two of its key staff members in the inter-war years, Roland Nugent, the first Director-General, and Guy Locock, the Secretary and second Director-General, were both introduced into the FBI on secondment from the recently created Commercial Section of the Foreign Office. This was not the last time that the state would act as instigator in the attempt to forge a single peak organization of business interests, e.g. under Labour in 1965 (*ibid.*).

While the FBI quickly established itself as the central organization of British industry, its internal divisions over the question of tariff reform were further exacerbated by initiatives on the pressing issue of industrial relations. Docker's organic vision of a co-operative empire necessarily linked both aspects of imperial unity and the reform of industrial relations. He and others of a similar mind were favourably disposed towards the proposals of the Whitley Committee for joint industrial councils of workers' and employers' representatives as a locus for resolving disputes without recourse to industrial action. In December, 1917, the Federation's Labour Committee issued its only report urging discussions between trade unionists and trade associations to bring a stop to restrictive practices and extend provisions for sickness benefit, superannuation, disability allowances, unemployment and technological displacement benefits and even minimum wages for periods of short-time work, all on the basis of shared contributions and in addition to any government measures. This report, however, created another major fissure within the FBI, and the threat of resignation from the employers' associations forced its withdrawal (*ibid.*, pp. 16-18).

The Federation was compelled by these same groups, led by the Engineering Employers' Federation, to pass a "self-denying ordinance" prohibiting any dealings with labour affairs. Yet, the FBI's interest in progressive labour relations did not end at that point. It supported a National Industrial Conference in February, 1919, which recommended legislation on a minimum wage and limits on working hours as well as the formation of a permanent National Industrial Council. While these proposals were never implemented by the government, in the wake of the conference the employers' federations seceeded from the Federation and set up the National Confederation of Employers' Organizations, later renamed the British Employers' Confederation, which henceforth dealt exclusively with industrial relations leaving the FBI to concern itself with other matters of interest to industry (ibid.).

The British Manufacturers' Association likewise continued into the inter-war years on an independent basis, although incorporated briefly as a constituent organization of the FBI in 1917. It was more overtly political in stance, committed to protection and largely based on small manufacturing firms in the Midlands, although larger companies like Austin were initially active. Docker, disillusioned with the compromised policies of the FBI, resigned from the latter to take up a leading role in the National Union of Manufacturers, as the BMA was rechristened, which did not exclude discussions of industrial relations' matters. However, in later years the NUM became largely the voice of small capital, opposing the close relations between big business and the state, especially under Labour governments, and forcing concessions on the flank of the FBI, whatever the convictions of the latter's leadership (ibid., pp.19-21).

As a result of these splits on key policy issues the stewardship of the FBI passed to more conservative industrialists, and the Feder-

ation backed off from its founders' conception of the organization as a creative and initiating force in industry-labour-state relations. It began to focus more on industrial services and such general policies as could command universal business support, e.g., lower taxation and government spending. Progressive industrialists in consequence often had to take initiatives outside the auspices of the key peak organizations or at least without their official backing, as in the case of the Mond-Turner conferences, the movement for the rationalization of British industry or the agitation for imperial preference. However, on at least one significant issue the FBI was able to formulate a distinct political position, albeit one which was rather weak owing to continuing divisions and its general lack of authority, namely the question of the return to the gold standard in 1925.

The conflict between industry and finance continued through the inter-war period, although the issues in question varied considerably from the simple opposition between free trade and protection. The period was marked by the personality of Montagu (later Lord) Norman, who reigned over the Bank of England for the entire era and was at the focus of many of the controversies. An understanding of the role of the City in the formation of government policy is impossible without a fairly close consideration of his aims and activities. In general one may say that the hegemony of the dominant financial bloc was perpetuated, first, through the return to the gold standard in the attempt to re-establish the pre-war linkage between international capital flows and the domestic economy and, second, through the specific articulation between the state and the financial system, i.e., the set of rules governing public borrowing and expenditure. In both cases practices appropriate to an earlier stage of capitalist development were continued

into a period when conditions had vastly altered.

The return to the gold standard in 1925 is rightly seen in the literature on this era as the focal point of the conflict between industry and finance. There is little doubt as to the aims of the City and the Bank of England during the first decade following World War One:

The men of 1919 believed that the best monetary system was that of 1913; a world gold standard centered on London, with the Bank of England controlling the system by manipulation of Bank Rate, and acting as the watchdog of financial practice (Sayers, Vol.1, p.111).

The Cunliffe Committee on Currency and Foreign Exchanges after the War had recommended as early as August, 1918, a return to gold at the pre-war parity rate as soon as practicable. The Committee, in fact does not seem to have considered any alternative (Clay, p.155). None of the various witnesses called before it challenged its basic assumption of the desirability of restoring "the conditions necessary to the maintenance of an effective gold standard...without delay (cited in Moggridge, 1969, p.12)." Consequently, its recommendations focussed simply on the prerequisites to that end, namely, 1. the elimination of government borrowing, 2. the re-establishment and raising of the Bank of England discount rate tying domestic credit to the flows of international finance and 3. limiting the issue of fiduciary notes.

With regard to internal policy the Bank wanted to reduce the price level as quickly as possible from the inflated war levels. Likewise, the vast growth of Treasury bills during the war meant that the Bank rate had little effect on the short rates in the money market. This debacle was itself a result of the way the war had been financed, i.e., on the terms set by financial capital through the intermediary of the Bank of England. As a consequence the vastly increased government budget had been financed by borrowing, resulting

in an enormous increase in the size of the floating debt. The reduction of the latter was a main aim of the Bank during this period, but of the three possible means to this end, i.e., running a budget surplus, funding (converting to long-term debt) or a capital levy (for example, on war profiteers), the Bank favoured the first. Its fear of inflation because of its lack of control over the money supply also led it to support a high Bank rate, although the government held back for a time on this measure for fear of unemployment and the likelihood of labour unrest (see Howson, p.11).

The government's policies were constrained by the fact that the Bank acted as the sort of institution it was, a private bank with public responsibilities following the "sound financial practices" articulated by the financial sector (Tomlinson, 1977). From 15 December, 1919 the government affirmed the policy of returning to the gold standard at pre-war parity at the earliest favourable moment. Even before that date the Bank rate had been raised to 7%, falling somewhat thereafter and then rising again in preparation for the return to gold. Deflationary policies fitted in with the national and international goals as well as the ideological axioms of the dominant agents in the policy-making process. The Bank advocated them as a necessary step on the road to the restoration of the pre-war international financial system and the Treasury out of an equal commitment to the reduction of the war debt through budget surpluses.

Norman's position in the City's campaign for the resumption of the gold standard was crucial. As Strange argues, his perspective demonstrated the inherent schizophrenia of a "top currency" state, namely the conflict of interest between internationally-minded finance and domestic industry (Strange, p.51). There is no question that Norman put the preservation of the international role of the City at the top of his

list of priorities, supporting the City's attempts to re-establish its central financial role. As Clay points out in his *apologia* for the "Norman yoke," he viewed devaluation (returning to gold at a lower exchange rate) only in negative terms. He felt that its positive effects would have been eliminated by the rise in prices of necessary imports and by the reduction in income from overseas' investment, shipping, etc., all of which were denominated in sterling.

To these obvious advantages in working for the pre-war rate, Norman would add the less definable but not less real advantages of restoring and maintaining the country's international position - the advantages of possessing a world currency, which made payments to other countries easy because they were always willing to hold balances in it, and facilitated the *entrepôt* trade and international services which contributed a large part of the country's overseas earnings (Clay, p.160).

Furthermore,

the Bank and the City would naturally attach great importance to the loss of prestige which devaluation would have involved, and the Treasury officials do not seem to have differed (*ibid.* p.155).

As a result of these considerations Norman led the move back to gold as soon as the two most disturbing features of the financial system, the war debt and German reparations payments, were resolved to his satisfaction, even if the latter proved more intractable as the years passed by.

The global strategy of Norman was perhaps best expressed by one of his main adversaries in the world of high finance, Émile Moreau, the Governor of the Bank of France at the time:

Now that the financial position of Britain has been restored, they are striving to make London the great international financial centre. But those close to Norman state that this is not his main objective. Apart from all ideas of centralization, he wants more than anything else to witness the setting up of links between the various banks of issue, even without his initiative. His big idea would be the following. The economic and financial organization of the world appears to the Governor of the Bank of England to be the major task of the twentieth century. In his view, politicians and political institutions are in no fit state to direct with the necessary competence and continuity this task of organization which he would like to see

undertaken by central banks, independent at once of governments and private finance. Hence, his campaign in favour of completely autonomous central banks, dominating their own financial markets and deriving their power from agreement among themselves (cited in Boyle, 1967, p. 205).

Norman's project for the centralization of world credit through the co-operation of central banks was a few decades premature. In the 1920s, one might say, the British bourgeoisie had lost and the American bourgeoisie had not yet gained the capacity for governing world finance. Britain's status as the "top currency" nation was already dependent on financial support of the dollar, hence Norman's close relationship with Benjamin Strong of the New York Federal Reserve Bank. At this time the national ruling classes of the West were far too divided politically for this sort of scheme, especially as part of a thinly disguised effort to re-establish British hegemony. The French in particular resisted and ultimately helped to torpedo Norman's plans for the restoration of the gilded age of pre-1914 capitalism (Strange, p.52).

None the less, the trappings of that era, i.e., the gold standard at the pre-war parity rate, were dusted off on the occasion of Churchill's budget speech of April, 1925. The position of the City, the Bank and the Treasury was, as indicated above, fairly straightforward. The financial world and its agents and allies viewed the move as an expression of support for London's rightful place in the centre of the world financial system and as a necessary step for the revival of British capitalism and the imposition of world monetary order. In this aim they were tacitly supported by all of the governments concerned, including the Labour government and its Chancellor of the Exchequer, Phillip Snowden, who proved one of the most unbending adherents of financial orthodoxy of the entire inter-war era. The return to gold and the preliminary efforts of the early 1920s had restored

the Bank to its dominant position in the policy-making process. Its autonomy from any sort of political influence was secured by the complete acceptance of its view on financial matters by the relevant ministers, the belief that these were best left to the "automatic" regulation of the gold standard and the international flows of finance.

Yet, opposition to at least some aspects of this global strategy did emerge in the 1920s, at first fitfully and then with greater intellectual precision and the concentration of political resources. Industrial capital constituted the core of this opposition, although it was bolstered by the arguments of some prominent intellectuals, in particular Keynes, and the support of some leaders of organized labour but not the dominant politicians of the Labour Party. This opposition proved ineffective, however, in the first place because it lacked the coherence of the dominant bloc in that it attacked mainly the effects of financial policies and not their presuppositions and, secondly, because it came after the fact, as a response to adverse circumstances rather than as an elaborated set of alternative policies. Gradually, however, the various strands of criticism were woven into a fairly coherent challenge to virtually every aspect of orthodox political economy, and leading industrialists attempted, again with only limited success, to weld a political coalition which would prove capable of putting the alternative programme into political practice.

In the initial stages industrial capital was certainly reluctant to challenge financial orthodoxy in matters outside their own realm of expertise. They believed in the competence of the City and the Bank and Treasury on matters of monetary and fiscal policy, and only gradually came to realize the full effects of the latter on industry's economic prospects. At the same time the central organization of

industrial capital, the FBI, was still only in its formative stages and manifested the divergent views of its members. According to W.A.Brown, "The general tone of industrial opinion was agnostic towards the question of the return to gold." The same author described the main expressions of industry's dissatisfaction as, first, "a rather vague feeling that the interests of the City, particularly the speculative part of the City community, were best served by a fluctuating exchange, while the best interests of industry were served by a stable exchange," and, second, an "attitude of nervousness and apprehension on the part of industry over a possible hardening of money rates and credit contraction in connection with a return to gold (W.A.Brown, pp.50-51)."

None the less, industrial leaders did baulk publicly at the course of events even if their criticisms lacked coherence and were politically ineffective. As early as September, 1921, W. Peter Rylands, the President of the FBI, sponsored a memorandum to the government which emphasized that,

So far as trade is concerned, it is important to remember that stability is of far greater importance than the re-establishment of any pre-war ratio with gold or any other standard of value. From this point of view, deflation can be as potent a source of instability as inflation (cited in Hume, p.141).

At the Annual General Meeting of the FBI he argued that a stable exchange rate at the then current value of four dollars to the pound would best serve the interests of the manufacturers.

O. C. Armstrong, Rylands successor as President, initiated a similar memorandum to the government in July, 1923. The meeting which approved that proposal was also the occasion of a more general attack on "Treasury theories of monetary policy" by Sir Alfred Mond, a leading manufacturer and founder of ICI whose subsequent activities will be investigated in greater detail. Yet, despite the more critical views

of some industrialists FBI policy remained equivocal at least in the period leading up to the return to gold. The Federation sent further memoranda to the government in October, 1923, February and July, 1924, and March, 1925, but from July, 1924, the objections to the pre-war rate had been dropped (*ibid.*). However, one should not conclude from this that industrialists had enthusiastically embraced the gold standard; rather, they accepted the determination of the government to pursue that particular course but repeated their reservations about the possible effects of deflation on industrial prospects.

The most complete expression of Federation policy appeared in their submission of July, 1924, to the Chamberlain-Bradbury Committee on "Currency and Bank of England Note Issues." That memorandum accepted that "a general return to the gold basis by the principal trading countries would...be greatly to our benefit," but noted that such a general return was "impracticable" at that moment in time. Assuming that devaluation was ruled out it designated the choices as either waiting for U.S. prices to rise or forcing down British prices to the American level. The result of the second approach, it warned, would be detrimental to industry, involving "a serious temporary dislocation of trade and a probable increase in unemployment," "a severe fall in British prices," "a serious industrial dislocation due to the necessity of reducing money wages by 10%, which would in present circumstances seriously increase the difficulty of maintaining industrial peace," "a strong probability that a severe check would be administered to the export trade," and "an increase in the real burden of the National Debt." As a consequence the Federation warned that "a British initiative in restoring the gold standard at an early date...would be premature and in-advisable," and urged instead a policy of postponement or at least a bilateral agreement with the U.S. for regulating the value of gold

until an international settlement could be arranged. The memorandum concluded by emphasizing industry's need for stability and offered the view that the latter "cannot...be achieved by one country acting alone, but only by a general agreement on the part of the principal trading countries of the world to re-establish a common monetary standard (reprinted in MacMillan Committee Evidence, Vol.1, pp.190-191)."

It is instructive to look at some of the other views offered to the same committee. Keynes and Reginald McKenna were the only other individuals who were opposed outright to the return to gold (Moggridge, 1969, pp.28-30). Governor Norman on the other hand thought some sacrifice might be necessary but that this was outweighed by the benefits of a stable exchange rate. Another Director of the Bank of England put the position somewhat more explicitly,

admitting a sacrifice even though we may differ as to the amount, I think it would not be too high a price to pay for the substantial benefit to the trade of this country and its working classes, and, also, although I put it last, for the recovery by the City of London of its former position as the world's financial centre (ibid., p.28).

Industry's reception of the final announcement of the return to the gold standard in April, 1925, was not exactly exuberant either. The President of the FBI, Colonel Willey, stated in terms reflecting their ambivalent position,

From the long point of view the decision is to be welcomed, but the immediate effect may create difficulties. At the present moment the pound is overvalued in relation to the dollar, i.e., in relation to gold...It is to be assumed that the announcement made today, together with the powers given to the Bank of England, will rapidly bring the pound to parity with the dollar and will, for a time at least, increase the present difficulties of our export trade, which is already suffering from a greater rise in the value of the pound than is justified by the relative level of sterling and gold prices (cited in Hume, p.144).

Similarly, Sir Alfred Mond gave a somewhat prescient last-minute plea in Parliament against an overly hasty return to the gold standard,

Now, apparently, we are to be harnessed to the money rate in New York, our trade to be further depressed whenever there is

a flurry on Wall Street, because some people seem to think we must be hanged on a cross of gold. I hope that doctrine will be repudiated. I can imagine nothing more dangerous to the harassed and already depressed state of trade in this country than that we should hitch ourselves on to the American money market, and take it as the guide and loadstone of British finance (cited in W.A.Brown, p.55).

However, the first consideration, the desire for exchange stability in any form, was probably uppermost in the minds of less farsighted industrialists. W.A.Brown's contention that "the majority of manufacturers were not particularly interested in the question of gold and monetary policy" and that "they did not clearly relate it to their own practical problems" is perfectly believable (ibid., p.56). Their lack of concern or understanding in conjunction with the prestige that the City and the Bank still exercised within the dominant class no doubt convinced most of them to follow the lead of finance in the hope that the restoration of the symbols of the old order would put things right in reality. There was certainly no direct questioning at this point of the structure of the already decomposing world financial system, nor of the City's role in that system and in the domestic economy, nor of the right of the Bank of England to formulate monetary policy.

Large industrial concerns were probably more concerned with the "real" problems affecting them at this time, namely the complete reorganization of the structure of ownership that occurred in British manufacturing in this decade. An alternative ideology for industrialists was articulated mainly in the movement for "rationalization" or "planning" which coincided with the return to the gold standard. As expressed by its most able advocate, Lyndall Urwick, rationalization included two main elements, "financial combination of business" and the application of "scientific methods of management to existing units of control." Rationalization provided an alternative approach to both the free-market competition of laissez-faire capitalism and the socialism of the labour movement. It seemed to be the answer to the problems of

over-capacity and flagging demand in the traditional export industries as well as the means to provide a more stable relationship with labour after the unprecedented levels of confrontation immediately following the war and during the General Strike. One could hardly believe it to be coincidental that one of the main opponents to the return to the gold standard from within the ranks of industry, Sir Alfred Mond, was also very active in the merger and rationalization movement. He participated in the Amalgamated Anthracite and International Nickel combinations as well as the founding of ICI, not to mention his key role in the Mond-Turner talks between industry and organized labour, in which rationalization was offered as the precondition for improving the social welfare of the working class (Urwick, and Hannah, pp.28-44).

Indeed, the Mond-Turner conferences must be seen as a crucial moment in the political as well as the industrial struggles of the time and a harbinger of future developments. For they not only amounted to an attempt at accommodation between managers and union leaders allowing rationalization and implicitly higher unemployment in the short run in return for the maintenance of the wages of those still at work. They were also the first attempt since the demise of the Tariff Reform campaign to weld together a "producers' alliance" against financial capital's control of the state. The interim joint report adopted by the full industrial conference in July, 1928, for example, went considerably further than official FBI policy on the question of the gold standard and general credit policy. Noting the fears about the adequacy of the gold supply and the conviction that "elasticity of currency and credit" were essential to industrial recovery, the report resolved,

That under the special conditions in which

the gold standard operates at the present time we are not convinced that it is either practicable or desirable that the credit policy of the country should be determined more or less automatically by gold movements as in pre-war days (TUC, 1928, p.230).

The same report also called for the creation of a National Industrial Council composed of representatives of employers' organizations and trade unions, for full recognition of the role of the unions in industrial relations and for the establishment of machinery to review victimization and provide arbitration for industrial disputes. It further recognized the trend towards rationalization and merger but significantly stated that "this tendency should be welcomed and encouraged in so far as it leads to improvements in the efficiency of industrial production, services and distribution, and to the raising of the standard of living of the people (ibid., p.229)."

The final report dealt more specifically with the problem of unemployment, and again monetary policy was accorded the greatest share of blame for the deteriorating situation. Consequently, it called for "the currency and banking policy of the Treasury and the Bank of England [to] be framed as to take into more complete account the requirements of industry (TUC, 1929, p.191)." Unemployment due to rationalization was deemed to be "temporary" or not "a serious factor." Indeed, it argued on the contrary that it was

unfortunate for the country that industry generally, and particularly some portions of industry, have been unable, partly on account of the time factor, partly for more fundamental reasons outside their control, such as the level of credit facilities, partly on account of factors within their control, to apply rationalization with sufficient rapidity for the progress and prosperity of the nation (ibid., p.192).

As Pollard has argued, the Mond-Turner conferences represented an attempt "by the main victims to combine forces against the Treasury and the City which had done them such grievous harm (Pollard, 1969, p.151)." The effort failed of course but not interestingly because of trade union hostility. The main concern expressed at the TUC confer-

ences was with regard to the position of unions in the drive for rationalization and scientific management. One opponent, George Hicks of the Building Trade Workers, expressed the fears of skilled labour regarding industrial restructuring:

Rationalization under capitalism is a totally different thing to how you would approach it if it was rationalization under a system controlled by the people and run in the interests of the community. Rationalization today...will undermine the position of the craftsmen. Yes, there are some craftsmen here who will realize that every attempt at rationalization means a general cheapening of the cost of production (TUC, 1928, p.428).

However, such objections were easily deflected by resolutions supporting greater efforts at unionization as the best means of securing an equitable outcome from changes in the production process, and opponents of the Mond-Turner conferences like A.J.Cook, the miners' leader, were easily defeated.

Rather, the moves to forge a "producers' alliance" founded at this stage over the intransigence of the "backwoodsmen" on the employers' side. From the start the talks had been hampered by the division of the industrialists into several organizations. The members of the FBI and the National Confederation of Employers' Organizations sat only in an individual capacity as those associations refused to give the meetings official sanction. In the end hostile opinion in both precluded the formation of either a National Industrial Council or the Joint Conciliation Boards for industrial arbitration, and both sides rapidly lost interest in further conferences. However, at least one of their proposals was enacted under the MacDonald government which followed soon after, namely the establishment of a committee to review financial policy and the provision of credit to industry.

At this point in time industrial capital for the most part was not yet willing to undertake such a radical critique of financial management and the revision of political alignments that such a

critique implied. They simply moved ahead with the drive for rationalization and amalgamation as the main solution for the problem of industrial decline and even received considerable support from financial institutions in the course of this process. Indeed, as we shall indicate later, even the Bank of England dropped its narrow definition of its proper role for a time and actually conducted some of the efforts at combination, although more for reasons of financial necessity than for any change of its ideological commitments. Yet, industry discovered limits to the process of rationalization and amalgamation, not, as indicated above from obstruction on the part of organized labour, but rather in the restrictions imposed by the financial environment in which it operated. Rationalization could only lead to further overcapacity if markets continued to dry up at home and abroad and if the vicissitudes of government economic policy undermined their confidence and ability to undertake the massive investment involved in restructuring. Consequently, many industrial leaders pressed forward the logic of "planning" beyond methods of production or the structure of the firm to encompass relations between firms (industrial associations or cartels) and the provision of credit and the framework of state economic policy.

The writings of Lord Melchett (Alfred Mond) trace the development of this logic in the 1920s. An early advocate of rationalization and scientific management, founder of ICI and International Nickel and chief proponent of collaboration with the leaders of organized labour, Melchett expressed the aim of progressive industrialists to extend the process of rationalization to the whole economy and, ultimately, the political system. For him the rational organization of industry included the elimination of "cut-throat" competition and financial stringency. National organization was a necessity if British firms were to survive against superior German and American competition. The latter had the

advantage of close relations with their financial institutions, facilitating the process of amalgamation and the creation of cartels. However, given the unavoidable involvement of British banks in the industrial crisis, he doubted whether the financial sector would be able to maintain its traditional distance from the affairs of management: "They will either have to incur very heavy losses when those concerns go into liquidation, or they will have to take into their own hands a redistribution and reconstruction of those businesses (Mond, 1927, p. 233)."

National amalgamation in his view in turn laid the basis for international cartel agreements on prices and production quotas. However, the very fact that the creation of "trusts" took place on a national basis created obstacles in the way of international settlements, as national competition could simply displace that of individual firms. The solution offered here was once again to utilize the framework of the Empire as a means of both protecting industry in the period of transition and securing markets for British goods when expansion returned. Imperial development in short seemed the answer to both problems of over-capacity and foreign competition, the only means to prevent further erosion of the export trade now that Britain had lost its industrial superiority (ibid. and Melchett, 1st, 1930). These same threads became the basis of the industrialists' critique of orthodox economic policy when the crisis broke in the wake of the Wall Street crash.

The MacMillan Committee Report and its Minutes of Evidence are the most important documents of this period as they exposed those in command of economic policy to such criticisms. More than any other official inquiry into the financial system before or since, they displayed the attitudes of the City, the Bank and the Treasury

before the close questioning of various economists, especially Keynes, and other interested parties. The Committee developed in the end a thorough critique of the operation of the financial system and the state institutions responsible for economic policy and offered at least a partial programme for the radical restructuring of both with the aim of subordinating finance to the requirements of domestic industry.

The views expressed by the representatives of the City, the Bank and the Treasury were characteristically vague and complacent. They uniformly favoured the status quo envisioning only minor reforms to deal with the exigencies of those "abnormal conditions." The interviews with Montagu Norman have since become infamous for his wooly-headedness and disregard for the domestic consequences of the Bank's policies. None the less, it is worth reviewing some of his statements to demonstrate some of the main points.

For Norman the difficulties of the industrial sector were primarily the result of external factors and its antiquated structure and production methods. Consequently, "the salvation of industry in this country, without which commerce and finance cannot long, or indefinitely continue, lies in the process of rationalization." Indeed, his opening remarks went so far as to commit the Bank of England to furthering that process, which could only be achieved by "the marriage of finance and industry (MacMillan Committee, Minutes of Evidence, Vol. 1, p.211)." This marriage was to be achieved, however, not through a wholesale restructuring of the relations between the two sectors nor the goals and methods of economic policy, but by the Bank's sponsorship of one or two companies which would assist in the process of combination, an initiative which we will consider in greater detail below.

With regard to the effects of monetary policy Norman was un-

characteristically explicit. In reply to a question as to whether the Bank considered the consequences to industry of movements in the Bank rate, Norman stated, "we have them in view, yes, but...the main consideration in connection with movements in the Bank Rate is the international consideration." Moreover, the internal effects were "greatly exaggerated" and "the disadvantages to the internal position were relatively small when compared with the advantages to the external position (ibid., p.212)." Priority had to be accorded to the latter because,

The whole international position has preserved for us in this country the wonderful position which we have inherited, which was thought for a while perhaps to be in jeopardy, which to a large extent, though not to the full extent, has been re-established. We are still to a large extent international bankers. We have great international trade and commerce...we do maintain huge international markets, a free gold market, a free exchange market...and all of those things, and the confidence and credit which go with them are in the long run greatly to the interest of industry as well as to the interest of finance and commerce (ibid. p.213).

The rest of the Governor's testimony was devoted to the defense of his faith that the financial system and the return to the gold standard had little if anything to do with the industrial depression. In his claim that the return to the gold standard had no necessary effect on price levels Norman displayed both his ignorance of the operation of economic policy and his virtual blind faith in his approach to monetary policy. His vague and contradictory statements before the pointed questioning of Keynes have been often reported in other works, but it is worth repeating his summary comments:

Of course, you may complain of me...or of those bankers you have seen, that the evidence they have given you comes through their nose and is not sufficiently technical or expert. Of course, that may in some measure be true; I plead guilty to it myself to a certain extent, and it is a curious thing, the extent to which many of those who inhabit the City of London find difficulty in stating the reasons for the faith that is in them. Mr. Keynes must know that very well (ibid., p.221).

The other bankers called before the Committee echoed that same

faith and were less willing than Norman to stipulate any steps that might lead to a "marriage of finance and industry." They defended their policy of aiding individual client firms if they got into financial difficulties but denied that it was the proper function of a joint-stock bank "to take the initiative in dictating that some steps of that sort [reorganization] ought to be taken (ibid., p.130)." They admitted that their involvement in industrial restructuring had been more or less forced upon them by exceptional circumstances, and that that role was one properly confined to the abnormal situation. The banks contended, quite rightly, that they did not have the experts or technical knowledge which would enable them to take a leading role in rationalization. In their comments on the monetary policies of the Bank of England they proved equally defensive. John Rae, Director of Westminster Bank, betrayed the basis of his concern with questions on this "dangerous topic:" "If you wish to expand credit in this country you have got to alter your attitude towards gold, and you have got to alter, I think, at the same time, the position of Britain as the money centre of the world (ibid., p.143)." In short while City spokesmen were willing to support some measures of reorganization like the Bankers' Industrial Development Corporation, they refused to question the policies of the Bank of England and the role of finance in general.

Industrialists called before the committee on the other hand were uniformly critical and evidently moving towards a much wider questioning of the role of the Bank of England and the financial sector generally. The FBI's evidence was the most comprehensive, dealing separately with the operation of the gold standard and with the inadequacies of national industrial finance. Reviewing its previous evidence to government committees before the return to gold, the representatives of the Federation primarily attempted to justify their earlier reservations and fears. Documenting the continuing industrial depression

they concluded unambiguously:

- (a) That British monetary policy during the past five years cannot be acquitted of an important share of responsibility for the lamentable conditions of trade and employment during that period, and for the lack of expansion of our overseas activities.
- (b) That the sacrifices of industry to the needs of finance which that policy has entailed have not been adequately counterbalanced by benefits conferred on other sections of the community.
- (c) That from the point of view of British industry and commerce the essential pre-requisite of a proper functioning of the gold standard is that it should be international both in scope and operation.
- (d) That there is no indication that the post-war gold standard is likely to resume its pre-war "automatic" regulatory functions in the near future, unless conscious and deliberate steps to this end are taken by the Central Banking Authorities of the world in concert.
- (e) That having regard to the recent policy of certain gold-using countries, notably the U.S.A., there is no reason to anticipate that the necessary element of international co-operation will be forthcoming, unless much more vigorous action is taken, despite the lip-service paid to the underlying principle in such universally acclaimed resolutions as those adopted at the Genoa Conference in 1922 (*ibid.*, p.188).

Given such a pessimistic appraisal of the possibilities of central bank co-operation the FBI representatives could only conclude that "we are no longer justified in looking for a resumption of our foreign trade activities on pre-war lines, however successful our reorganization and rationalization on the industrial side may be." The impact of disaster in the staple industries, they argued, had only been limited and particular in range, while restriction of the money supply had a general effect. Consequently, it was useless to seek salvation by concentrating efforts on reconstructing those sectors: "A permanent cure will not be possible unless international financial arrangements are set up to replace the system destroyed by the war." Given the lack of co-operation and the emergence of "national financial policies" and "self-contained and exclusive groups," such new arrangements could only be made on a national basis (*ibid.*, p.189). While the representatives of the FBI would not be drawn out too explicitly as to the exact meaning of these terms, the implications were clear enough. They wanted an elastic monetary system

capable of expanding or contracting to meet the needs of industry, an abandonment of laissez-faire foreign trade policies, in particular tying foreign investment to the purchase of British goods and some kind of protection from foreign competition, but one which allowed for the continuation of considerable overseas investment which they saw as a precondition for expanded exports. In short industrialists were beginning to link up the reform of economic policy with the old issue of imperial preference, although that particular term was not used (ibid., pp.199-210).

With regard to national industrial finance the Federation was again plagued with internal conflict so could only offer a majority rather than a unanimous opinion. Its criticisms here were mainly aimed at defects in the banking system taken as a whole, focussing in particular on the lack of intermediate credit facilities between short-term over-draughts and shares offered to the public. Industrial spokesmen also expressed concern that long-term facilities denied to them might be offered to their rivals abroad through the international operations of the City. More generally they worried about the lack of co-ordination between industry and finance, but here as well internal conflicts precluded bold suggestions for reorganization, such as calling for investment by the banks in industry:

The difficulty which faced our Committee in framing recommendations with the view to securing this end co-ordinating financial information with the banks has already been partly referred to above, the danger that close co-ordination between the banks might lead to the development of some form of "Money Trust," which would not only destroy the already somewhat limited competition between the banks, but, in addition, give them an undue element of control over the development of our national industries. In addition, while it was felt highly desirable that the banks should be adequately informed in regard to such matters as the general productive capacity, market prospects and other relevant statistics in connection with the major industries, the Committee were not anxious to encourage anything in the nature of a direct participation of the banks in industry (ibid., Vol.2, p.241).

The evidence of the two other industrial associations called before the Committee confirms the increasing unity within industrial capital on many of these points despite continuing divisions on some aspects. The National Union of Manufacturers, speaking on behalf of small business, emphasized the need of the latter for securing adequate long-term credit, particularly in the cases of short-term difficulties. They suggested state guarantees on all long-term bank advances to industry. One of their representatives, Edward Berkeley, went on to suggest the emancipation of the provision of credit from the tie to gold, arguing instead that the money system should be based on the resources of the Empire. He also proposed that the state should fund a British Trade Bank modeled on the German industrial banks, which would finance imperial trade and take a lead in reorganizing British industry (ibid., Vol.1, pp.145-156). Likewise the Federation of Master Cotton Spinners' Association, a bastion of free-trade opinion in earlier times, gave evidence indicating the shift in their views:

The Federation is of the opinion that the present monetary system is acting very adversely towards the Cotton Trade, and feels that the present deplorable condition of the industry is in great measure due to the existing monetary system, which undoubtedly is detrimental to producers (ibid., Vol.2, p.109).

Highly critical of the operation of the gold standard their submission went on to suggest a national financial system "designed to promote and intensify production within the home market." They believed that a proper monetary policy would do away with the debate over protection versus free trade, since neither was the key to the industrial depression (ibid., pp.109-123).

When finally published in 1931 the Report of the MacMillan Committee incorporated some of these objections. While rejecting the abandonment of the gold standard or devaluation, it noted that "the relations between the British financial world and British industry,

as distinct from British commerce, have never been so close as between German finance and German industry or between American finance and American industry (MacMillan Committee, Report, para. 376)."

It advocated associating a single bank with competing firms in the same industry to facilitate rationalization on the German model:

British companies in the iron and steel, electrical and other industries must meet in the gate their great American and German competitors who are generally financially powerful and closely supported by banking and financial groups, with whom they have continuous relationships. British Industry, without similar support, will undoubtedly be at a disadvantage. But, such effective support cannot be obtained merely for a particular occasion. It can only be the result of intimate co-operation over years during which the financial interests get an insight into the problems and the requirements of the industry in question (ibid., para. 384).

It also recommended that an institution like the Bankers' Industrial Development Corporation be set up on a permanent basis in order to supply intermediate and long-term credit to industry and facilitate closer relations between the two sectors (para. 403). A similar institution could be set up to meet the equivalent needs of small businesses (para. 404).

In the meantime industrialists were hardly inactive in their attempts to organize the productive sector. The movement for rationalization had occupied most of their energy in the late 1920s, but by 1929 slump conditions created a new fear that rationalization would simply add to existing problems of over-capacity and unemployment. As indicated in the evidence to the MacMillan Committee industrial leaders were faced with the contradiction between their need to restructure and the apparent intractability of low demand. They needed changes in the economic environment in addition to internal restructuring and many of the leaders of the rationalization movement turned their efforts towards the desired reforms of British political economy. In particular, in those years of international economic disorganization

they renewed active promotion of their long-standing commitment to an imperial tariff, now increasingly coupled with a demand for an end to the gold standard basis of British monetary policy (Pollard, 1969, p.169).

The activity of the FBI developed rapidly following a survey of members indicating 96% of those replying were in favour of changing "the existing Free Trade fiscal system," including a majority in every single industrial sector (FBI, Fiscal Policy Committee, Sept. 1930). On 13 October, 1930, the Grand Council resolved that "the Federation of British Industries shall press by every means in its power for the establishment of a fiscal system which will combine protection of our industrial interests at home with the widest possible extension of Inter-Empire Preference (FBI, Grand Council Minutes, 13 Oct., 1930). As a result the FBI set up two committees, one on fiscal policy and the other on industrial policy, to thrash out and promote policies for imperial preference and related questions like the gold standard.

The Fiscal Policy group set up a co-ordinating committee including their representatives, Henry Mond (son of Alfred) and the FBI President - Sir James Lithgow, along with representatives from Lord Melchett's Empire Economic Union, the Empire Industries Association, the National Union of Manufacturers and the National Council of Industry and Commerce. This committee took charge of the united efforts of industrial capital in lobbying and conducting a publicity campaign over the next two years in favour of imperial preference. Soon reconstituted as the League of Industry, its main activities were concentrated in strenuous propaganda efforts, including meetings, press releases and advertisements, leaflets and even toying with the notion of demonstrations in the main industrial centres. As in the previous Tariff Reform campaign they had to contend with opposition from the

Liberal Free Trade movement, but the members of the committee at any rate considered the latter thwarted by June, 1931 (FBI, Co-ordinating Committee on Fiscal Policy, Minutes, 1930-31).

The Industrial Policy Committee had to work out the thornier issues about the gold standard about which there was much less unanimity. While some advocated devaluation or abandoning the gold standard, the President expressed the ambiguity of their situation, pointing out that,

While the opinion of bankers was popularly held to be authoritative on these matters and while they pursued their policy of vigorously opposing any inflation, if the Federation were to make such a recommendation it might weaken the importance that would attach to the rest of their recommendations in other directions and would probably be of no avail in any event (FBI, Industrial Policy Committee Minutes, 6 December, 1930).

Given these considerations the Committee agreed to concentrate on the aims of the preference campaign and lower taxation, which dominated the public statement released in March, 1931, Industry and the Nation (see Blank, 1973, p.26). By September, 1931, however, the members of the Fiscal Policy Committee were in agreement that the implementation of the tariff policy had to be accompanied by going off gold if it were to make any difference to the industrial situation and the financial crisis (FBI, Fiscal Policy Committee Minutes, 16 Sept., 1931).

Yet, despite these prodigious efforts the organizational weakness of industrial capital at the political level and the structural and ideological predominance of the City precluded any serious change in monetary and fiscal policy. Even on the question of Empire preference the FBI had not played a leading role but was moving along with the drift in responsible opinion. The campaign had been initiated outside the auspices of the FBI by industrial leaders like Lord Nuffield (William Morris) and Lord Melchett and by imperial propagandists such as Lord Milner, L.S. Amery and Lord Beaverbrook. By July, 1930, even some

prominent bankers, Reginald McKenna, Beaumont Pease, R.H.Tennant, Sir Henry Goschen, Sir Guy Grant and F.C.Goodenough, had come out in support of imperial protection (S.E.Thomas, ch.7 and Skidelsky, 1967 p.229n). By the autumn of that year when the FBI finally threw itself into the campaign, the only dogmatic free traders left were some Liberal MPs, a large section of the City and of course key figures in the MacDonald Cabinet, especially the Chancellor of the Exchequer, Philip Snowden (*ibid.*).

The Labour government remained wedded to fiscal and monetary orthodoxy despite the efforts of these groups and others operating within the Labour movement. The explanation for the "failure of nerve" of the MacDonald government has less to do with their wooly-headed vision of socialism and lack of an intermediate programme, as Skidelsky has argued, and much more to do with the institutional and ideological hold of the City on the state apparatus. By the time of the final crisis political opinion was thoroughly fractured, the Liberals dropping their earlier support for expanding public spending but still opposing protection, the Conservatives predominantly protectionist but calling for cuts in taxes and expenditure, and Labour riddled with divisions on every issue. In this confusion the bankers' view simply prevailed. Neither industry nor the Labour movement could mobilize sufficient forces or even reach a consensus on an alternative programme, and the major parties were equally at sea (see Skidelsky, 1967, chs.10 and 11).

The debate among economic historians over the return to the gold standard has largely centered on the question of the effects of re-valuation entailed in returning at the pre-war parity rate. While it is not my intention here to engage in a detailed examination of this controversy, a few comments are in order. First, the focus on the rate

of exchange is no doubt a result of the famous attack by Keynes in "The Economic Consequences of Mr. Churchill." Yet, while the choice of the higher rate certainly resulted in an immediate over-valuation of the pound (Moggridge, 1969), the selection of a lower rate of exchange of say \$4.40 might not have made a great deal of difference. The countries which followed Britain onto gold could easily have chosen a rate for themselves that would still have devalued their own currencies by an equivalent amount. Second, given the return to the gold standard and the limited reserves available to the Bank of England, its policies on credit would have been inevitable oriented towards maintaining or increasing those reserves. Thus, the Bank rate was subordinated to the continuing attempts to balance short-term financial inflows with long-term outflows under the very strict conditions imposed by the reserves. Its central efforts were directed towards raising the reserves, so the Bank was more inclined to raise the Bank rate when it was losing gold than lower it when conditions improved (Howson, p.36). The conditions involved in re-establishing the gold standard at any rate of exchange, i.e., the attempt to regain the "top currency" role for sterling, pre-empted a credit policy designed for the immediate needs of the industrialists, namely reflation. Third, the Bank did in fact increase its reserves considerably in the years following 1925, but they none the less proved inadequate when the final crunch came in 1931 (Sayers, Vol.1, p.218). The question of the exact rate of exchange therefore seems less significant, at least as an explanation of the final crisis, although it no doubt hurt the industrial sector and indicated the ideological hold of the City on state institutions. The Treasury's ability to use debt management and budgetary policy for reflation was likewise constrained by the structure of the financial system. It accepted as well the overriding need to reduce the floating debt, the level of which had

been set by the wartime practices of finance, and were averse to increasing government expenditure through borrowing on the terms set by the financial sector. The Treasury's adherence to orthodoxy simply confirmed the overwhelming ideological and institutional hegemony of financial capital (Tomlinson, 1981, pp. 101-3 and Moggridge, 1972, p. 142).

In the final result the political efforts of industrialists and various intellectuals like Keynes and G.D.H. Cole to bring about a change in the priorities of economic policy came to nothing. Rather, it was the world financial crisis that began in the United States that brought down the gold standard system. Following the Dawes Plan of 1924 U.S. lending overseas increased dramatically, sustaining the German economy until 1928. This flow was then diverted to the feverish speculation on Wall Street until ultimately disrupted by the Great Crash. The speculative frenzy preceding the crash drew off funds from London into the hot New York market, putting the gold standard under great strain even then as London depended on the inflow of short-term funds from America to balance the long-term outflow. The Bank rate stayed a notch above that of New York, reaching 6.5% in September, 1929, as authorities on both sides of the Atlantic tried vainly to control the effects of the American boom. In fact the Bank of England's immediate reaction to the news of the Wall Street collapse was one of relief as it promised to remove the main source of strain and offer the prospect of lower interest rates (Howson, p.66). However, the disruption of the U.S. financial system resulted eventually in a severe decrease in international lending in turn forcing Britain off of the gold standard in 1931 (Kindleberger, ch.6 and Howson, ch.4).

The final crisis began in May, 1931, with the failure of the Kredit-Anstalt, an Austrian universal bank on the German model. Insolvency grew to major proportions, especially for the short-term creditor nations like the U.S. and France. As Howson describes it,

The mad scramble for liquidity in mid-1931 could not be stopped by credits from the Bank for International Settlements, the Bank of England, the Bank of France and the Federal Reserve Bank of New York to the Reichsbank, nor by U.S. President Hoover's offer of a one-year moratorium on all inter-government debts on 20 June; on 13 July the Darmstädter Bank failed and thereupon the entire German banking system was closed (Howson, p.75).

The Austrian crisis marked "the end of Britain as the lender of last resort" for the international financial system (Kindleberger, p.151). The crisis next struck London, and a failure of confidence in the pound drew off £32m in gold within two weeks despite a two per cent rise in the Bank rate. Montagu Norman himself collapsed at a meeting of the Bank of England's Committee of the Treasury on 29 July and was removed from the scene for the duration of the panic. England remained tied to gold until 19 September, when the Deputy Governor finally requested the government to end the obligation to sell gold on demand.

The domestic problems exacerbated by the return to gold did not thus have a direct bearing on its ultimate collapse. The causes of the final crisis were in immediate terms financial. Conversely, pace Keynes, alternative policies were never simply a matter of the limited intellects of those presiding over the policy-making process or the need for persuasive argument against old shibboleths. For, in Pollard's words,

The decision of the monetary authorities in this period cannot become fully intelligible until it is realized that they were dominated by a narrow section of the City, the section concerned with international finance, both long-term and short-term, and by its spokesman and representative, the Bank of England (Pollard, 1970, p.13).

The sine qua non of the City's position within the state system was, in turn, the gold standard with its "automatic" regulation of credit. Going off gold was a necessary, although evidently not a sufficient, precondition for formulating a national employment policy. Such a re-orientation was only possible on the basis of a political mobilization against the City's control of the key state institutions. Such a mobilization proved impossible in the years before the final crisis

and even in the wake of the economic dislocations of the 1930s for reasons which I shall outline below.

The immediate political consequence of monetary crisis was the downfall of the Labour government of Ramsay MacDonald. The history of that government illustrates the disarray of the potential political opposition and the complete ideological domination of finance as illustrated in the inflexible orthodoxy of the Chancellor of the Exchequer, Phillip Snowden, who constantly sought to prove himself plus catholique que le pap. Its collapse capped a two-year period of almost total political incapacity and demonstrated the power of the banks in very concrete terms. On 23 August, 1931, the Deputy Governor of the Bank of England cabled Morgan's of New York regarding the possibility of a joint French-American loan to support the pound. Morgan's replied that they could only back 90-day Treasury bills but offer nothing more substantial until the programme of the already shaky government was settled.

Are we right in assuming [the telegram read] that the programme under consideration will have the sincere approval and support of the Bank of England and the City generally and thus go a long way towards restoring internal confidence in Great Britain. Of course our ability to do anything depends on the response of public opinion particularly in Great Britain to the Government's announcement of the programme (cited in Clay, p.392).

The programme demanded was of course the imposition of "fiscal responsibility," i.e., the reduction of the budgetary deficit forecast at £120m in the May Committee Report on August 1st. The Report itself simply confirmed the fears of foreign bankers as to the weakness of sterling, and its majority proposals for £96m worth of cuts in public expenditure, including a 20% cut in unemployment benefit, was the essence of their notion of "public confidence." Given the hostility of the unions and the left wing of the Labour Party to such measures, their imposition necessitated the split of the Party and the dissolution of the govern-

ment (see Skidelsky, 1967, ch.13, Williams, and McKibben).

The political programme of British finance did suffer a major setback with the toppling of the gold standard, even if it managed to bring down the MacDonald government as well. This ought to have afforded British industry the opportunity for a reassessment of their own position, faced with the prospect of a major depression in world trade and the evident inadequacy of the City's perspective. In fact a degree of rethinking did occur. The MacMillan Committee opened up one avenue for consideration with its recommendation for a "German solution:" the association of the banks with different industries to follow through with the process of rationalization and the elimination of "destructive competition."

Industrial capital did in fact achieve a significant degree of concentration in the late 1920s and 1930s. The rationalization movement more or less transformed the industrial landscape through the creation of major monopoly corporations, albeit two decades later than similar developments in the United States or Germany. The merger movement was not, however, accompanied by closer organizational links between the banks and industry. The main consequences of the amalgamation process in Britain were, first, the further decline of the family firm and, second, the heightened role of the stock exchange. The private family company had placed certain limits on the degree of concentration of capital, namely those imposed by the resources of one family or the ability of the firm to generate a surplus. In practice, apart from a few new expanding industries like automobiles, combination was a precondition for capital concentration on a level with other advanced nations. The alternative of state finance was not yet necessary nor desirable as far as industrialists were concerned except in the case of public utilities. The stock market provided the means for overcoming the

limitations of the existing form of enterprise, both through the issue of new securities and the trade in existing assets.

Provided that the prospects of large-scale enterprise were sufficiently attractive to call forth such investment, the capital resources of a number of wealthy individuals could in principle, through the medium of the stock market, be aggregated to provide enough finance for the largest of firms. It was on this pattern, rather than in the nineteenth century mould, that the financing of large enterprise was to be achieved (Hannah, p.63).

The entry of new issues onto the market created the preconditions for increased speculation, as both owners and promoters tried to cash in on the financial promise of combined firms as expressed in rising share prices. The possibilities of reaping speculative rewards thus fueled the take-over boom as share prices rose rapidly with merger activity. By the eve of World War Two the number and value of publicly-quoted firms had risen dramatically comprising the vast majority of the manufacturing sector. Yet, if the stock market was crucial in the process of centralization of ownership, new investment projects were still financed primarily through the internal generation of funds, an estimated four-fifths of the total of home investment in the mid-1920s (Hannah, pp.64-70). The government supported the merger movement at least in the sense of not placing any legal obstacle in its path, but this did not extend to state support for rationalization schemes in a financial sense as neither industrialists nor government ministers and officials wanted state finance or control. However, the existence of a degree of political pressure for greater state support of rationalization schemes was enough to force the Bank of England to undertake several initiatives if only to ward off greater state intervention (Hannah, ch.4 and Clay, ch.8).

The Bank of England was, paradoxical as it may seem, a major force in the reorganization of British industry in the late 1920s and early 1930s, albeit inadvertently and only on an ad hoc basis. It was drawn

initially into restructuring measures through its involvement in two northern industries hit by the depression. The armaments concern, Armstrong and Whitworth, had run up large debts with the Bank's Newcastle branch as a result of its efforts to diversify into locomotives and ship-building. The Bank had undertaken a number of financial reconstructions in the 1920s, but by 1928 it was forced to merge the remaining armaments section with Vickers and found itself in the position of controlling shareholder. The second case was the formation of the Lancashire Textile Corporation in which the Bank again played an instrumental role. Norman's motivation in this matter was laid out in the minutes of a meeting the Bank's Committee of the Treasury on 19 September, 1928:

he considered it to be necessary for the Bank to support and subscribe to a satisfactory scheme, partly to help the cotton industry, partly to keep the question away from politics, but more especially to relieve certain of the banks from a dangerous position. The growing advances of those banks to the cotton industry were already unduly large and unless they obtained relief there was danger that the Bank might be compelled to assess them (cited in Sayers, Vol.1, p.317).

One should not assume in other words that the Bank's involvement in industrial reorganization stemmed from an ideological conversion to the German system of finance capitalism.

Governor Norman also committed the Bank of England to the rationalization of the shipbuilding industry, offering temporary advances of up to £300,000, and was pulled into the restructuring of the Lancashire steel industry as well as a rescue operation for the Glasgow armaments firm, Bearchmores. He recruited City backing for the reorganization of the Lancashire Steel Corporation, launched in early 1930, out of which emerged the Bankers' Industrial Development Corporation. The latter incorporated the Bank's erstwhile industrial adjunct, the Securities Management Trust, and was floated with an initial nominal capital of £6m, of which the Bank subscribed one-quarter and various

financial institutions the rest. The BIDC, while it lasted only until 1945, at least offered a symbolic break with the City's hands off relationship with industry as its avowed purpose was

To receive and consider schemes for the re-organisation and re-equipment of the basic industries of the country when brought forward from within the particular industry, and, if approved, to procure the supply of the necessary financial support for carrying out the schemes (Sayers, Vol.1, p.326).

Norman's reasons for involvement with industrial finance were, however, hardly such as to encourage any long-term commitment. Even his apologists admit that warding off an increase in state intervention was a major concern behind his activities. In the final analysis these efforts hardly amounted to a "marriage of industry and finance." The merger boom and the phase of capital concentration had largely petered out by the mid-thirties so there was less scope for financial restructuring. In the course of the slow recovery of that decade bank advances to industry decreased as firms were able to repay their loans, so even short-term lending to industry declined (Pollard, 1969, p.234).

The major political "victory" for industrialists during the slump was the conversion of the National government to the cause of protection, even if rather late in the day and only to a limited extent. The fall of the gold standard dealt a severe blow to free traders and paved the way for some form of imperial preference. After a perfunctory inquiry by the Balance of Trade Committee under Neville Chamberlain the Import Duties Act of February, 1932, ushered in protection as official policy. In the initial bill free entry was granted only to the countries of the dependent empire, while the position of the dominions was made conditional on the results of the Ottawa Conference later that year. The latter produced at least a formal version of the "imperial vision" with regard to tariff policy. Except for South Africa the dominions agreed "to protect only plausible industries," "to submit their duties to

impartial Tariff Boards, which would decide how much protection the domestic industries really needed," and "to impose only 'scientific tariffs' on British goods, which would then enter their territories with the status of domestic competitors (Drummond, pp. 92 and 100)." The dominions and India also agreed to adjust their rates downward, and Britain, which had imported as much as 83% of the total duty free in 1930, managed to reduce the proportion to about one-quarter in the next couple of years. The effects of instituting this system are naturally difficult to determine with any precision, but, while protection probably had little impact on the structure of British industry, it no doubt diverted existing foreign trade into the imperial system. While from 1913 to 1931 Britain had imported around 25% of its goods from empire countries, by 1937 the total had risen to around 37%. Similarly, British exports to the empire had grown from 34% to nearly 40% of the total (Pollard, 1969, pp. 197-8 and Landes, 1969, p.475).

The Colonial Office also promoted production or commodity control programmes in the dependent empire, largely, it seems, to restore colonial state budgets to a position of "fiscal soundness," that is eliminate any deficits. Production control amounted to a form of output restriction to raise prices of primary goods, either through state-supported schemes or international cartels, usually American sponsored. Yet, even these efforts seem to have been mainly for the benefit of financial shareholders. "Production control, in other words, reflected the British tendency to see 'recovery' and stability in terms of financial security for shareholders and financial institutions (Drummond, p.115)." Moreover, as Pollard rightly complains, "what was remarkable was not so much the adoption of protection, but its delay until 1931 in the face of the protectionism of all the other leading industrial states (Pollard, 1969, p.192)."

The City was in fact able to utilize the imperial framework to re-establish its dominance at least within the British economy in later decades. The termination of the gold standard was without a doubt a major blow to the position and prestige of financial interests. Norman himself regarded it as a personal defeat. The Bank and the Treasury were forced to control international borrowings and capital flows much more tightly than before, with deliberate discrimination in favour of the Empire. "The results were striking: foreign loans accounted for a far smaller proportion of the new issues in the thirties than in the twenties, and Empire borrowings were six times as large as foreign borrowings, though still much lower than in the twenties (Drummond, p.119). However, it is again here difficult to say how much of this shift was due to discriminatory government policies and how much simply to the collapse of world trade and investment possibilities outside the Empire.

The most significant financial development of the decade was the emergence of the sterling area, in effect the direct result of going off gold and the signal for the transformation of sterling "as the Master Currency used by Britain's political associates of the old Empire into a Negotiated Currency used by Britain's political associates in the Commonwealth (Strange, p.55)." Montagu Norman was in fact still arguing at the Ottawa Conference that the main objective of economic policy ought to be a return to the gold standard as quickly as possible, but this proved impracticable. Instead, with several dominions in dire need of loans to prevent default on their debts, London extended £29m in external loans in 1932, virtually the total amount going to countries of the Empire. In this way financial backing was given to the effort to stabilize the various currencies against a floating pound, more or less successfully and without a return to the gold standard (Clay, p.412).

The arrangement remained a rather loose one, and thus unsatisfactory from the point of view of financial interests, until the conditions of war reversed the situation and moulded the form of the post-war relationship.

The Exchange Equalization Account and the policy of "cheap money," i.e., a 2% Bank rate, might also be taken as pro-industry measures. The former was a fund of gold and foreign currency utilized for the maintenance of a stable exchange rate but also serving as a means of insulating domestic credit from the international financial system. The deliberate policy of cheap money deprived the Bank of its favoured instrument of credit control, the Bank rate, and in that sense represented "a shift in the balance of power from the Bank to the Treasury (Howson, p.95)," that is, the increasingly political direction of monetary policy.

According to Clay Norman resented these intrusions into his domain:

He wanted to counter-attack when the Account's gold reserves were replenished from Issue; and he put to the Chancellor, but without results, the alternative policy of ending cheap money and facing some sacrifice in the domestic field for the benefit of increasing London's international market (Clay, p.441).

Yet, even these policies were designed to preserve a free market in currency and securities in London, at a time when a fixed rate of the pound against gold would have meant an immediate run on the reserves and was therefore out of the question (ibid., p.440). Despite Norman's qualms about inroads into the Bank's area of jurisdiction City influence was by no means simply overturned in this period, although there were unquestionable setbacks.

The thirties thus constituted an era when the political power of finance was considerably diminished, although there is a tendency among particularly Keynesian historians to overplay the significance of dropping the gold standard. The old system was finished, but there remained the possibility, later realized, of reconstituting the ancien

regime under different auspices. Given the depth of the crisis and the vast political upheavals of other advanced capitalist nations like Germany, France, Italy or the United States one can only be struck by the paltriness of the changes instituted by the National government. In most industrial countries protectionist policies went much further than in Britain as a response to industrial pressure for state-supported cartels or other "corporatist" measures under the guise of economic "planning." In the United States, for example, the limits of "industrial self-government" or "business syndicalism" had more or less been reached by the time of the 1929 crash. Cartels which had flourished in the 1920s simply could not hold the line against their weaker members who cut prices when economic conditions deteriorated. The National Industrial Recovery Act, introduced as a "partnership in planning" between the state and business, created the basis for legally binding industrial codes, signifying the complete interpenetration of big business and the regulatory commissions (see Kolko, 1976, ch.4). Germany, of course, went much further towards the establishment of a corporate state. While working class organizations were suppressed and replaced by the more amenable Nazi Labour Front, industrial cartels increased in number and scope and became compulsory organizations, especially in small business where the problems of over-capacity and cut-throat competition had been endemic. The cartels were transofrmed into "total institutions" governing the economy with sole legal rights for fixing prices and output quotas. Big capital, at least until the period of war mobilization, effectively used the state institutions to promote its self-organization, facilitating the trend towards politically controlled markets and a national export strategy. According to one famous study, "In consequence many of the economic agencies of the state became parts of the institutional arrangements of organized capitalism (Schweitzer, p. 528, see also ch.6 and Neumann, pt.2)."

In Britain on the other hand there was no attempt to construct a full-scale corporate state or even embark on the widespread if contradictory experimentation of the New Deal model. There were, it is true, some measures of state support for rationalization efforts. The Coal Mines Acts of 1930 and 1936, the Spindles Act of 1936 and the Cotton Industries Reorganization Act of 1939 as well as the creation of the British Iron and Steel Federation, measures of restrictive licensing for road traffic and the Agricultural Marketing Acts of 1931-33 all constituted instances of state support for cartel arrangements fixing prices and output (Allen, 1970, pp.65-7). Yet, these measures were largely ad hoc and limited in their impact to the most troubled industries. While representing certainly a shift of policy from acquiescence to support for rationalization or "planning" as it came to be known, they were far less comprehensive than similar acts introduced by the Roosevelt administration in the United States. The change in government policy was perhaps best summarized in a report published in later years by the FBI:

The Government, although not prepared to exact a general law prescribing a 'cut and dried' method of trade organisation applicable to all industries, expressed its readiness to sponsor Acts of Parliament designed to encourage schemes of self-government in particular industries and prepared to assist ad hoc schemes for the reduction of redundant plant...This principle was given official recognition in the Finance Act of 1935, which provided that if a scheme had been certified by the Board of Trade as being of assistance in reducing excess capacity, contributions to it might be deducted from income tax (FBI, 1944, pp. 15-16).

Some industrialists, however, proposed policies far beyond the official ad hoc intervention within existing economic and political constraints. After his father's death in 1930 the second Lord Melchett, Henry Mond, became a forceful advocate of radical measures. Besides support for comprehensive rationalization and imperial preference, Melchett extended his criticisms to both the financial and political systems. With regard to finance he essentially wanted the

complete insulation of domestic credit from international monetary flows, a proposal partially realized through the Exchange Equalization Account (Melchett, 1932, chs. 1-3). It is his proposals for political change, however, which are of greater interest.

Melchett was highly critical of the role of the Treasury, the Bank of England and Parliament. Treasury control of expenditure he viewed as a method "of so hindering the action of the Ministry in a thousand details, that they become impotent." Moreover, the Treasury worked "very closely with the Bank of England, and between the two they can bring a pretty heavy squeeze on the Chancellor of the Exchequer (ibid., p.167)." While the Treasury was thus chided as being too cautious and conservative to meet modern challenges, the party system tied Ministers to their various and conflicting constituencies. He cited as criticism of party politics a personal communique from Mussolini: "'there is no time for it; the party system was based on friction. The modern world is based on efficient lubrication (ibid., p.175).'"

Indeed, the second Lord Melchett was clearly very favourably impressed by his investigation into fascist organization. He particularly admired the state system of syndicates, the National Council of Corporations and the methods of compulsory arbitration, all of which provided for "economic self-discipline under the law of the state (ibid., p.182)." In defense he invoked the parallel between the corporatist solution of industrial disputes and the proposals resulting from the Mond-Turner conferences a few years earlier (ibid., p.180). For him state corporatism offered a model for extending the programme of rationalization, scientific management and planning, which his father had pioneered in the industrial sector, into the political system:

Here we see a political construction, based upon the unity of a nation, and a Government which desires to develop the State as a planned and well-organised unit to achieve the greatest potential development of its population and territory... it is certainly

an advance in certain directions, and an interesting experiment in all directions in the science of Government; and above all in the science of human social organization. The liberty of the individual is precious; but it is not, and never has been, as precious as the life of the nation (ibid., pp.183-4).

His proposals for Britain did not go so far as to advocate the complete adoption of Italian fascism but rather the adaptation of corporatist elements to national institutions. His central plank was an Economic Supreme Council "to co-ordinate and develop the financial and industrial resources, firstly of Great Britain, and secondly, in conjunction with the Dominion Governments, of the Empire (ibid., p. 206)." He recognized the similarity of his ideas with the proposals put forward by the TUC for an "Imperial general staff" but insisted that such a body should have executive powers, in particular control over the Bank of England, and argued as well for a Discount Corporation to secure financial liquidity in crisis situations with wide powers to aid industrial development and handle labour issues. In its composition such a council would include primarily representatives of business, plus trade unionists, government ministers and leading civil servants and various independent members. In short it was a proposal for a third (or second if one eliminated the Lords) chamber of Parliament based on functional representation and in control of the key levers of economic policy. One should note that he did not imagine any need for the suppression of the unions but felt their leaders could be incorporated as council members (ibid. ch.7). As such his proposals were a harbinger of later developments, especially the widespread adoption of tripartite modes of representation during the Second World War and in the 1960s.

Other industrial and political leaders put forward similar schemes throughout the decade of the 1930s. Lord Eustace Percy, Sir Basil Blackett, Sir Arthur Salter, Roy Glenday, L.S. Amery and Hugh Sellon all

advocated a National Industrial Council along the same lines as that of Melchett, although they differed on the extent to which such an institution should be under state control. Harold MacMillan, Robert Boothby, Oliver Stanley and John Loder, all Tory MPs with northern industrial constituencies, likewise included corporatist aspects in the proposals put forward in Industry and the State in 1927. Max Nicholson's programme for a National Planning Commission, published in the Week-End Review in early 1931, led to the formation of the propaganda and pressure group, Political and Economic Planning, whose publications supported industrial self-government throughout the period (Carpenter, pp.4-11).

The TUC similarly followed up its earlier support for a National Industrial Council in the Mond-Turner talks with other reports in 1932-3 giving a cautious recommendation for a similar institution, as well as to industrial self-government. In their case, however, the emphasis was on the consultative and advisory role that the unions could exercise in councils at different levels of the economy, harking back to the Whitley Commission at the end of World War One. They were also inclined to package these proposals as part of a "transitional stage" on the red-brick road to socialism to allay the fears of left-wing elements in the Labour movement (Carpenter, pp.16-17 and Harris, ch.3).

Harold MacMillan reached a similar position to that of Melchett by the time of his 1933 publication, Reconstruction. While still adopting in the main the restrictionist and defensive tone common to circles of industrial opinion, he was already under the influence of Keynes, as expressed in his growing concern with the disequilibrium between savings and investment. Protection was not an end in itself but a means for securing planned future expansion. Industrial self-government through councils for each industrial sector, while necessary to regulate output and restrict "haphazard and unco-ordinated competition," had to be complemented by a Central Industrial Council under the hegemony of industrial

interests and with certain executive powers under Parliamentary scrutiny. The main tasks of such a body would be maintaining economic equilibrium through controlling imports and overproduction and equalizing savings and investment by means of a cheap money policy. To promote growth it would have the power to secure new avenues for profitable investment, if necessary through public works "to preserve the stability of the market until the balance between savings and investment had been restored (MacMillan, 1933, p.59; see also Carpenter, p.11)." Yet, all of these efforts remained restricted to simple propagandizing, and none of them got much of a hearing with the National government.

More serious if more limited in scope was the attempt by MacMillan and Lord Melchett to launch the Industrial Reorganization League in the summer of 1934 to promote the passage of an Enabling Act which would give statutory backing to schemes of industrial reconstruction, much like the NIRA in the U.S. Such legislation would give a majority of producers in any one industry the possibility of establishing a central authority with legal control over all firms. Though apparently supported by wide sections of industry and with the stamp of approval of the newly-formed PEP, it was opposed by the leadership of the FBI. The hostility of the latter was most likely due to the opposition of the smaller or more backward firms which feared the growing power of the new monopoly corporations, and to the FBI's ever-present concern for unity at the cost of supporting radical policy positions. At any rate Melchett had enough support to force a special committee and a canvass of the member trade associations of the FBI, and half of the fourteen that responded agreed with the proposal for further government powers. However, the opponents of the bill included such heavy weights as the Iron and Steel Federation and the Electrical and Allied Machinery Association, and the Federation remained committed to a policy of

voluntary self-regulation. Melchett also introduced a bill into the House of Lords and led deputations to the Board of Trade, but as far as the government was concerned the issue had been settled by the position of the FBI; they would support ad hoc legislation for reorganization but no general enabling act (Carpenter, p. 13 and Blank, 1973, pp. 28-31).

Despite these setbacks liberal corporatists continued to make various proposals into the second half of the decade. Harold MacMillan's The Middle Way was the most comprehensive of these statements. Reaffirming support for an enabling act, as well as statutory recognition of trade union rights, he was the most eloquent "New Dealer" of the period. He even proposed the extension of public ownership to aging and unprofitable industries which were deemed necessary for national economic or social reasons. Yet, by then the influence of Keynes's General Theory was increasingly evident, as MacMillan stressed more forcefully than before the importance of expansionary investment to supplant the programme of industrial self-organization (MacMillan, 1938, esp. chs. 10 and 11). Increasingly, especially in the wake of World War Two, the emphasis in the pronouncements of industrialists and their political allies shifted towards the control of fiscal and monetary policies and away from restrictive schemes of industrial self-government with or without statutory backing as the means to resolve the contradictions of advanced capitalism.

As a final comment on the inter-war period it is necessary to consider the alternative and highly influential account offered by Middlemas (1979). For this author these years mark the transition to a new "triangular pattern of cooperation between government and the two sides of industry" and "the elevation of trade unions and employers' associations to a new sort of status: from interest groups they became

'governing institutions' (ibid., p. 20)." Middlemas sees this emerging system of "corporate bias" as largely responsible for the lack of class conflict in Britain in those and subsequent years up to the 1970s. As he concentrates on labour issues and consequently on TUC relations with the NCEO, his analysis is partly based on a different set of issues that the broader trade, economic and industrial questions treated here. However, two important points of criticism follow from the preceding discussion. In the first place the various informal discussions between unions and employers' organizations did not actually achieve very much in the way of agreement (Dintenfass, 1980). Particularly in the crucial areas of unemployment benefit and state spending the unions and employers were at complete odds with one another. Secondly, the influence of these 'governing institutions' on actual government policy was highly marginal. As argued above the constraining aspects of government economic policy for the inter-war period were the return to the gold standard and the funding of the national debt, and these were essentially framed around the interests and priorities of the City. As Middlemas himself admits, "In all the great pitched battles over the allocation of resources and fiscal policy during the inter-war years...the Treasury won (op. cit., p. 228)."

In contrast with this view I have argued that the politics of a "producers' alliance," while articulated at various points, remained submerged. The dominant financial power bloc and the City-Bank-Treasury axis remained intact if badly bruised throughout these years. In terms of government economic policy, patterns of representation and mode of procedure, what is notable is the minimal nature of the concessions and changes introduced. If a case can be made for a "governing institution" in this period, it concerns the continuing if somewhat fragile hold of financial capital rather than the rise of unions and trade

associations. Conversely, the explanation for the relative social peace of that period is more fruitfully aimed at attitudes and behaviour at the social base rather than relations at an institutional level. It took another world war to bring significant changes to the relationships between the state and the major socio-economic forces.

CHAPTER FOUR

The Rise and Fall of 'Supervised Self-Government: '

Economic Planning during World War II and the Attlee Governments, 1940-51

The Second World War even more than the First ushered in a sea change in the formation and operation of economic policy as well as in the relations between business and the state. At the height of the war public expenditure accounted for 64% of the national product. More important than simply the quantitative growth of government expenditure were the qualitative aspects, the change in the methods and aims of economic the imposition of a vast apparatus of controls both physical and financial, in short the changes necessitated by the requirements of a total war economy, maximum production guided by the needs of the war effort.

Equally significantly the war created a climate of altered expectations on the proper role of the state in the economy and society. More precisely the war broke down opposition to the expansion of the state's economic and social functions within the ranks of the dominant class which had proved so formidable during the decades of depression. The war-time experience of full employment and maximum production convinced many business leaders that depression was not a necessary feature of advanced capitalism and that social benefits on a massive scale had to be extended to the working class if the sense of national community was not to collapse again into the hostile relations of the "two nations" of labour and capital once peace returned.

The Labour government of Clement Attlee can be seen as a more or less successful attempt to consolidate these gains, roughly summarized

as the institution of Keynesianism in economic policy and the welfare state in the social realm. Even if it disappointed, perhaps demoralized, many of its supporters who expected far more in the way of transitional policies to a socialist society, the Attlee government delivered on its promise of carrying through serious and long overdue reforms in the social and economic fields. In essence Labour took seriously the "new sense of communal responsibility" created by the war effort and pushed through a reformist programme in the space provided by the temporary relaxation of administrative conservatism and the shift in opinion within the dominant class away from obstinate resistance to any expansion of the role of the government. Yet, it is none the less the case that much of Labour's programme had already been proposed under the National government, most notably in the case of the Beveridge Report of 1942, and it is for this reason that I will treat both governments as part of a single period, one which laid down the parameters of state activity for the next twenty-five years.

The system of economic controls erected somewhat hesitantly by the National government was modelled on that in operation during the latter stages of World War One. As in that earlier global conflict the government was slow to institute the necessary changes, at least while under the timid leadership of Chamberlain, the "phoney war" in effect reflected in the lack of economic steps toward full mobilization.

The control of civilian trade and consumption, the control over the foreign exchanges and capital movements, the control over labour demand and supply, rationing of food and the expansion of munition-making and machine tool capacity all appeared as belated mechanisms forced on the government by the march of events than as the orderly stages of the creation of a war economy (Pollard, 1969, p. 298).

However, by 1941 under the impact of the Battle of Britain and the overwhelming need for aircraft production, the system of direct economic controls was gradually imposed. Although there was no use of self-con-

sistent and comprehensive plans, the use of direct controls did represent something like economic planning within the framework of a capitalist mode of production, more so than any time before or since. The planning apparatus involved a system of allocation whereby every department and the appropriate manufacturers were allowed a proportion of the available supplies corresponding to their share of the national total. Gradually, this system of physical controls spread to the various sectors of war production, which in a total war with limited supplies implied direct controls over supplies, prices, exports and imports as well as indirect controls over many aspects of finance.

The institution of economic planning even in this limited sense required a transformation of the policy-making system. While at the start of the war the Treasury was still the chief department in charge of economic affairs, after the ascension of Churchill its role gradually diminished. By June, 1940, a series of committees, the Production Council, the Economic Policy Committee, the Food Policy Committee, the Home Policy Committee and the Lord President's Committee, had largely displaced the Treasury as the core machinery for economic policy. After January, 1941, the Lord President's Committee consolidated its directive role over the other bodies, its increasing importance corresponding to the imposition of direct controls on the economy. Likewise, the Economic Section with several newly recruited economists took over the Treasury role as the agency providing economic information to the government, by-passing Treasury influence over its activities through direct attachment to the War Cabinet. These institutional changes were necessary because, pace the official accounts of British government machinery, departments do make policy, and given the entrenched orthodoxy of the Treasury the new programme of "economic planning" required corresponding administrative changes to outflank Treasury opposition (Chester, 1951, and Winch, ch. 12).

The installation of the planning system in turn implied a modification in the relations between industry and the state. For although the market mechanism was more or less suspended for the duration of the war, the administration of the allocation system was itself in large part delegated to the leaders of the major businesses through their trade associations and peak organizations. Direct controls in the immediate hands of the state were limited to certain basic industries and services and to the issue of certain directives like the orders to concentrate non-essential manufacturing in certain firms in order to create more factory space for war production. In general, controls were operated through the trade associations which were given official recognition as either the government's agent or on a "compulsory-voluntary" basis where the trade association on its own authority at the government's request (PEP, 1952, pp. 71-2). Though the degree of legal compulsion varied, the effect in each case was more or less the same:

The distinction between the three types - compulsory control operated by the Government, compulsory control operated through an agency, and voluntary control - was not always as great as might at first appear. Many of the official 'controls' (using the term in the sense of the controlling section of the Ministry) were staffed by people from the industry itself; some were scarcely distinguishable in composition from the pre-war headquarters offices of the trade associations (*ibid.*, p. 72).

William Wallace, at the time the Director of Rowntree's and a Director at the Ministry of Food, described the operation of this system of "supervised self-government" for the confectionery industry in the following terms:

- (1) The Ministry would determine major questions of policy (such as the broad types of goods to be made and the principles of price control) in the light of national interests in general and of consumer needs in particular;
- (2) it would discuss with the industry the best means of achieving the ends in view with a minimum of avoidable hardship and with a maximum opportunity for the exercise of initiative;
- (3) it would leave such matters to be carried out so far as possible by individual businesses with a minimum of regulation;
- (4) where administrative control was called for, this would be delegated as far as possible to a body representative of the industry, working as agent for the Ministry and under its super-

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vision (Wallace, p.51).

What this method entailed was the conversion of the voluntary trade association, which had typically had large but incomplete coverage of an industry, into a compulsory organization with full membership assured by the ability to withhold a license to manufacture. The compulsory war-time associations represented the industries in the negotiations about supply, allocation and utilization of raw materials, price control, labour supply, the concentration of production and the zoning of markets as well as administering the decisions on these matters (ibid., ch. 7).

What the government did in other words was simply to utilize the existing framework of trade associations to administer the war system of economic planning, in essence a state-sponsored network of compulsory cartels directed in an overall way towards military needs. As the Economist recognized early on in the conflict, this meant that,

under the cover of wartime needs, the principle of Self-government of Industry has been given an official blessing. This is, in effect, merely the expansion and continuation of the Industrial policy that has been pursued by the Conservative Government for the past eight years, for in their hands control has nearly always meant the conferment of legal privileges on the organized producers already established in industry...industries are being encouraged to control themselves (cited in Brady, p.182).

The parallels between this "feudalistic system of cartel controls" and the corporate state of the fascist nations were not lost on some contemporary observers, most notably the interesting if somewhat alarmist study of the comparative politics of "organized capitalism" by Robert Brady. While there was no doubt a shift from the liberal corporatist emphasis of the 1930s towards a system of state corporatism necessitated by the massive government intervention of a war economy, it was a shift within the overall framework of the "corporate idea." As Brady quite correctly noted, "British war organization rests squarely on the associational machinery evolved over the peacetime interlude (Brady, p. 181)." Yet, at the same time the shift in relations between

business and the state, epitomized in the change in trade associations from voluntary and partial to compulsory and total organizations, ought not to be underestimated. The institution of a state corporatist regime, albeit under the temporary and exceptional circumstances of war, marked the general acceptance by British industry of government sanctions in the effort to organize business interests and control the market.

While the state corporatism of the war economy was only a temporary phenomenon, many industrialists and, indeed, leading trade unionists sought to utilize the experience of this system of economic planning as a model for business-state relations for the reconstruction period. The "second wave" of corporatist proposals which appeared in the latter stages of the war effort attempted to combine many of the ideas of the inter-war era with the new sentiment of national unity and class collaboration. Various proposals including elements of a corporatist structure, in particular the usual nations of industrial self-government and a national economic council, emerged in the years after 1942, not only from Conservative politicians like Leo Amery and Robert Boothby, but also from business organizations, like the FFI and the Association of British Chambers of Commerce, ad hoc groups like the "120 Industrialists" or the Central Committee of Export Groups, and individual industrialists such as Samuel Courtauld and William Wallace, both of whom had been actively involved in the wartime system of "supervised self-government" (Carpenter, pp. 18-24). While these proposals paralleled in many respects those of the 1930s, they differed mainly in their de-emphasis of the role of an economic general staff, eschewing in particular any notion of executive powers for such an agency in the post-war period, and more generally in their increasing concern to limit the powers of the state to the task of setting national priorities during and after reconstruction. The association between corporatist ideas and the industrial

framework of fascist Italy had by now discredited the more explicit versions of a corporate state, and industrialists were increasingly turning to Keynesianism as a cornerstone for national economic policy which could guarantee their independence from government as well as offer the promise of an end to depression and the co-operation of organized labour. All of the "second wave" corporatists recognized the need to place "national interest" above sectional concerns, but were equally convinced of the need to prevent direct state control over business and to encourage the return as quickly as possible to some form of voluntary self-regulation of business (*ibid.*).

The policy of the "120 Industrialists" as advocated in the widely publicised document, "A National Policy for Industry," is instructive as to the new mood in the business world. This report, published in 1942, urged that "relations between firms within the industry, between different industries and between industry as a whole and Government should be fully and more comprehensively organized in some form of permanent association." It suggested that industry ought to be classified and organized in sections in order to further various aims, such as maximum output, greater collaboration to ensure efficiency, the discouragement of "wasteful and destructive competition" and the encouragement of "such forms of industrial competition as are conducive to the public interest," standardization of wages and conditions, and so forth. (cited in Wallace, pp. 45-6). The problem with these proposals as with the FBI report on Reconstruction issued the same year was that they offered no means of rectifying potential abuse by trade associations if their status of more or less compulsory cartels was given official sanction. The FBI report was extremely pessimistic about postwar prospects and consequently took a highly restrictive view about the future role of industrial associations. Like the book published two years

later by its chief industrial organizer, Roy Glenday, it foresaw little likelihood fo future industrial growth and thus looked to other sectors to soak up the inevitable return of widespread unemployment (FBI, 1942, and Glenday, 1944). While other corporatist likewise took for granted that the new found strength of the trade associations would continue into the postwar period, they recognized that greater concessions had to be made to the principle of public supervision and concentrated instead on the means of limiting the growing role of the state (Carpenter, *ibid.*).

In particular it was those businessmen and other public figures who were directly involved in the state administration who began to articulate the idea of expanded public supervision with considerable enthusiasm. Samuel Courtauld outlined his views as a series of questions at the invitation of the Conservative Party committee on postwar reconstruction, later published by request of Keynes in the Economic Journal (April, 1942) and elaborated further in various speeches. Courtauld, who felt that his self-proclaimed "progressive views" were widely shared in industrial circles, believed that certain changes were inevitable and embraced them in any case as part of a national service ethic. He assumed that,

Government control is here to stay. With the growth and progressive combination of industries until their boundaries are practically coterminous with those of the nation, it is the duty of the Government to take power to control them, for no Government can tolerate the existence within its borders of an organized and completely independent power with a radius of action as wide as its own (Courtauld, p. 2).

The government would also have to plan industrial growth which would necessitate public control of investment, public ownership of certain basic industries, reform of the trade associations to make them more representative, merger of the FBI and the BEC, consumer protection, reform of the patent laws to prevent monopoly power, etc. However,

he felt that industrialists would not object to various controls so long as the civil service were reformed to make it more business-like and "Treasury control" was removed to prevent the "dead hand of Whitehall" from being inflicted on the supervised firms. In the area of labour relations Courtauld noted that "the worker is going to have a much more intimate and more effective share in the management of industry (ibid., p.31)," but such additional privileges would not be granted without an equivalent exercise of responsibility. Trade unions were "another kind of nation-wide organization whose interests were not necessarily identical with the national interest" and which consequently had to be subject to some measures of state control. Contracts between unions and employers would have to be made legally enforceable, and union reform might be necessary (ibid., p. 10).

William (later Lord) Beveridge was another public figure whose Full Employment in a Free Society had a considerable appeal in wide circles. Beveridge was of course heavily influenced by Keynes and took seriously the latter's notion of "socializing investment." For Beveridge public control would be established through a National Investment Board which would have the power to collect information and regulate investment in both private and public sectors "in pursuance of a national plan prepared for and approved by Parliament (Beveridge, 1944, para. 241)." This would be constituted under a Ministry of National Finance in charge of macroeconomic planning outside the control of the Treasury (whose powers would be limited to controlling the cost-effectiveness of public expenditure). Likewise the banking system would be brought to heel through effective control over the Bank of England and thus the cash basis of the monetary system (paras. 209-212 and 238-245). With regard to business regulation Beveridge felt that full employment itself would eliminate many restrictive practices, but, in those sectors where monopoly collaboration seemed the rule, he proposed a three-stage

system of state control in order to ensure "the co-operation of working people" in the full-employment programme. The first stage would be supervision, including powers to collect information and the registration of trade associations. The second stage, which he termed regulation, included the authority to veto any restrictive agreements and "as the ultimate sanction, to cancel registration." He was agnostic on the question of whether statutory powers should be given to the trade associations but insisted that in those cases "the use of that power must be subject to effective control by the state." The third stage of control, public ownership, should be imposed only on monopoly industries (paras. 293-295). On labour issues Beveridge proved more reticent in advocating state controls, but he recognized that under full employment "industrial discipline and private enterprise may be found to be mutually incompatible (para. 277)." He discounted the possibility of spiralling wage inflation, trusting the unions' new sense of responsibility and the provision of arbitration services (paras. 283-288).

Similar influences were expressed in the report of the Nuffield College conferences which took place in the latter stages of the war. Although ignored in most of the literature on the period, these conferences were in effect a repetition of the Mond-Turner talks of fifteen years before, including prominent trade union leaders, progressive industrialists like P.S. Cadbury, R. Coppock, Courtauld, W.A. Grierson, and of course the son of Alfred Mond - Lord Melchett, and a host of economists and intellectuals associated with socialist opinion like T. Balogh, G.D.H. Cole, E.F.M. Durbin, N. Kaldor and Joan Robinson. While Beveridge's name did not appear on the report he was clearly associated with the group and submitted sections of the draft of his book for collective criticism (Beveridge, pp. 13-14). The postwar consensus on economic and social policy did not simply materialize

out of the spirit of the times, and it was the task of these conference like the Mond-Turner talks to hash out the basis of a compromise programme among the amenable leaders from both sides of industry. The thrust of the policy document they produced, Employment Policy and Organization after the War, was remarkably similar to that expressed by Beveridge, with a parallel emphasis on the need for full employment, efficiency and policies designed to win "the workers' willing consent" to prevent restrictive practices. The problem of legitimacy for the post-war order was packaged, again like Beveridge, in the public service ethic of "war socialism," as most clearly expressed in the following:

The purpose of instilling public 'confidence' must be to secure that directors, managers, technicians, and clerical and manual workers all put first in their relations to industry the aim of serving the public, and that the associations and unions that bind them together for trade, professional, and protective objects shall also accept the aim of this service, and regard it as one of their essential functions to promote the efficiency of the industries to which their members are attached. The protective objects of these bodies are fully legitimate and indeed necessary as long as they are not allowed to stand in the way of the adoption of new methods of production or to exercise restrictive or monopolistic powers in the interest of any limited group (Nuffield College, 1944, p. 63).

The practical aspects of the programme outlined in the statement were much the same as those proposed by Beveridge and others associated with the war administration.. Investment was to be stabilized through an expanded public sector and the creation of a National Development Board, in charge of the funds available for public investment, capital issue licensing, foreign investment, etc. (ibid., p. 32). Such a Board would fall under the supervision of a new Ministry for National Development served by an advisory planning commission and established on an equal footing with the Treasury. The extension of powers to such a public organization would necessitate a change in the recruitment policies of the civil service to encourage mobility between it and the private sector (ibid., pp. 39-40). Industry was again divided into three sections, 1. the basic industries suitable for public ownership,

2. other oligopolistic industries, and 3. those in which small firms predominated. For the second group the report advocated Public Industrial Boards "responsible, in consultation with the economic organs of Government, for the formulation of general economic policy for the industries concerned," consisting of joint representatives of labour and management, and serving as the state-recognized liaison body. These Boards were not intended to act as state-sanctioned cartels but were rather to meet "the legitimate case for better organization and self-government, to prevent the growth of monopoly practices or control and to ensure a framework within which individual businesses can operate with the utmost efficiency and in the public interest." As such their primary tasks were to be the promotion of standardization and specialization, concentration of production, pooling patent rights, etc., but they were not to have the power to fix minimum prices, limit entry or output or pool finances. The statement did recognize, however, that such powers might be appropriate in special cases of "crisis industries" but aimed at securing substantial public supervision before the extension of compulsory authority. Trade associations which did not come under the supervision of an industrial board should be registered in order to place them under public scrutiny and prevent the possibility of cartel practices. The aim in short was to use state supervision as a means of promoting efficiency, organizational co-operation and the reversal of the "defeatist and restrictive attitude which has affected much thinking about industrial problems in recent years (ibid., pp. 44-54)."

On the labour side the document, as mentioned above, stressed the importance of securing worker collaboration to achieve greater flexibility in work practices especially among the skilled trades as a quid pro quo for full employment and the extension of social security

(ibid., pp. 16-18). It also supported retaining and extending works councils, joint production committees or similar bodies "in order to secure the continued co-operation of all grades of workers in the maintenance of industrial efficiency, and to recognize the claim of labour to a share of workshop control (ibid., p. 67)." In short its discussion of the labour issue was dominated by a concern for legitimacy and flexibility as it was feared that labour groups might take advantage of full employment to press wage claims without a corresponding increase in productivity.

While it is impossible to assess the overall importance of the Nuffield conferences, the influence is clear in such documents as the Fabian Research Group's Government and Industry (1944) and the TUC report on Reconstruction published the same year. Both drew heavily on the proposals outlined in the Nuffield College statement as did the Conservative Party report, Work: the Future of British Industry (1944), and the Labour Party statement, The Old World and the New Society (1943).

Industrialists might not have supported the whole programme of the Nuffield group, but the acceptance of at least some measure of public control was fairly widespread. Some like Willian Wallace, while highly critical of any system of institutionalized cartels and appreciative of the wartime system of "supervised self-government," were perhaps more typical of the business world in expressing concern that state intervention should have definite limits. Wallace's proposals were more defensive in that they were primarily aimed at securing a greater degree of independence for private capital within the post-war framework:

we should look to the State first and primarily to provide a suitable economic setting and to determine the objectives and lay down principles and exercise oversight; and, secondly, where the State must intervene in the actual operation of industry we should seek to do this in a way which leaves the greatest

practicable degree of initiative and responsibility to those in the particular industry concerned (Wallace, p. 49).

In other words Wallace along with many other industrialists had largely accepted the expanded role of the state in the areas of Keynesian management, i.e., the use of the budget to influence investment and consumption. His concern had shifted towards the organizational forms which might provide industrial influence over the details of economic policy as well as prevent state interference in the everyday management of firms. Keynesianism seemed the best alternative to the twin dangers of unstable laissez-faire capitalism on the one hand and directive state socialism on the other, for,

To perform these functions effectively [demand management] the State must consult industry. It must inform industry not only as to its policies and aims, but as to the reasons behind them, so that intelligent co-operation may be possible. It must provide a free and ready means whereby industry can submit its own views. For this, organization is essential (ibid., p. 80).

The organizational form appropriate for this linkage between the state and industrial capital was naturally enough the system of intimate relations between the trade associations and the various Whitehall departments. While recognizing the need for some kind of public control in cases of monopoly and restrictive practices, for the rest Wallace simply wanted the acceptance of trade associations as "the officially recognized organ of consultation on behalf of industry (ibid., p. 96)." In his view membership of the trade association ought to be purely voluntary, the only penalty to non-members being the loss of information and influence. In those sections still requiring direct controls or where the need for restrictive practices had been established, the appropriate linking agency would be an Industrial Board, in effect the postwar application of the model of "supervised self-government" or state-sanctioned cartels (ibid., pp. 97-101).

By 1944 the FBI as well had shifted towards a more positive,

less restrictionist policy than indicated in the 1942 report on Reconstruction. While the earlier document had followed the 1930s belief that the chief problem of the future would be chronic over-production and consequently stressed the need for virtually autonomous control of production by the trade associations, the 1944 report, The Organization of Industry, reflected the wartime experience of "supervised self-government." Recognizing the enhanced role of the Keynesian state, in particular the commitment to full employment, it repeated industry's main objective of securing its independent self-management within overall policy considerations. The aim was substantially the same as that of Wallace, namely, "that the Government should confine itself to producing a framework of national economic policy leaving the details to be filled in by working organizations provided by the industries themselves (FBI, 1944, p. 5)." The ultimate goal of industry remained "ultimate decontrol," and the way to minimize government interference was "for private enterprise to provide the effective machinery required through the trade associations." Reflecting a canvass of industrial opinion which was overwhelmingly against the continuation of compulsory membership and legally binding powers for trade associations, the report proposed that the latter maintain the role of being the "official channel of communication" between industry and the state on all matters of commercial and industrial policy. However, branches of industry still affected by over-production might require some form of compulsory control, although no mention was made of possible public supervision (ibid., pp. 6-10, see also Blank, 1973, pp. 31-8).

The various proposals enumerated above were significant not because they were implemented in full, which was not the case although aspects of many of them were incorporated into the reconstruction programme, but because they indicated the extent to which corporatist or

quasi-corporatist ideas were still dominant in British industry, the trade unions and political circles through the war years, indeed in some respects more prominent than before. Given the range of views from the FBI's reiteration of the demand for ultimate decontrol and unfettered undustrial self-government on the one hand to the much greater extension envisioned by Beveridge on the other, it was the task of forums like the Nuffield conferences to hammer out a compromise position that would elicit support on "both sides of industry." By the latter stages of the war the "middle way" proposals of the Nuffield group seemed to have found the right mix of Keynesian demand-mangement policies and quasi-corporatist controls capable of ensuring the collaboration of at least the agents of labour and capital, whoever won the postwar elections. It was more or less this recipe that the Attlee government served up as the political-economic basis for the "new society," given official blessing as the institution of "democratic planning." Yet, to the surprise of the Labour government it found itself facing increasing opposition from industrial capital to the programme which various representatives of the latter had been instrumental in drafting as business opinion hardened against any form of public supervision in the private sector, a conflict whose history I shall return to shortly.

The position of the City was likewise greatly affected by government supervision of external relations. International financial transactions came under state direction, but the new forms of control were undermined from the start by the reconstruction of the imperial relationship under a new, if less stable, guise, the sterling area. Import and financial controls were gradually imposed with food importing taken over entirely by the state. The Treasury assumed direction of all dealings in gold and foreign exchange, reducing the authority of the Bank of

England still further. However, payments within the newly erected sterling area were left uncontrolled. In fact the creation of the sterling area under the pressures of war reversed the trend of the previous decade towards a looser currency area. Although voluntary in principle the sterling area amounted to a near monetary union, thus laying the foundations

which made possible the post-war development of a dollar-discriminating club and a banker-client relationship between Britain (with depleted reserves behind her) and her sterling-area associates (Strange, p. 56).

In this alliance the members held their exchange rates in line with the pound and pooled their reserves in London under British and later Anglo-American control. For the countries of the Empire this helped secure the viability of Britain both as a military power and as their chief trading partner, a mixed blessing from their point of view. For Britain a fairly severe price was paid for this union, namely increasing indebtedness to primarily sterling area countries, the so-called sterling balances. The degree of debt grew at a rate of about £600m per year during the second half of the war, allowing Britain to run a substantial trade deficit and still wage war but leaving a tremendous burden at the end, completely overturning the traditional position of London as a net world lender.

Until October, 1943, these growing debts were balanced by the inflow of dollars through the Lend-Lease Agreement with the United States. However, after that date the U.S. ceased supplying industrial goods gratis, and British reserves began to be depleted, leaving a total of around £250m by the war's end and liabilities some fifteen times greater, i.e., a sum close to the total overseas holdings at the start of the conflict. American policy thus meant that the sterling balances kept rising while reserves remained slightly reduced, but by the end of the war the American administration had a very different line on the prob-

lem:

The United States took the view that the sterling balances should be very largely written off, as a sterling area contribution to the Mutual Aid system of wartime finance. The British delegation in Washington, which included Lord Keynes, reacted to the suggestion with incomprehension. Britain saw herself as banker to an association of countries whose support Britain still needed politically as much as sterling needed their financial confidence. They took the opposite view that it was not for the banker to default (Strange, p. 60, see also Pollard, 1969, p. 334, and Gardner).

When in the end the U.S. became the financial guarantor of the sterling area, it also tacitly accepted the importance of reconstituting an international role for the pound, even if limited to the countries of the Empire. For the United States never forced a reduction of British liabilities through requisition or confiscation. In this way the U.S. promoted and continued to finance an international association which discriminated against American products, largely out of political considerations and the need to reconstruct the world financial system after the disintegration of the 1930s. The war had created conditions favouring a new financial unity in the old Empire, but this was only possible with American support through the 1946 Loan Agreement and later through Marshall Aid. In Strange's terms the gradual disintegration of sterling's role as a master currency in the Commonwealth was concealed and delayed in part through American aid as one facet of a new world financial system in which the dollar now occupied the position of top currency.

The Labour Government and Economic Planning, 1945-51

When Labour came to power in 1945 in a landslide election few could have expected its relations with business to be as agreeable as they proved in the next few years. The "concordat" between Labour and

capital, though somewhat strained in the final years of the government, was perhaps the most remarkable feature of the Attlee administration. Yet, the reasons behind this lack of overt hostility are not that difficult to comprehend. In the first place the overwhelming victory at the polls bequeathed such a firm legitimacy to Labour that a policy of obstinate obstruction was unlikely to provide much in the way of political dividends. Secondly, and more significantly, Labour's programme was firmly imbedded in the consensus on economic and social policy that had emerged in the latter years of the war. Despite a certain degree of socialist rhetoric the economic measures actually implemented were the same melange of Keynesianism and quasi-corporatism that had been advocated by industrialists and leading trade unionists during the closing stages of the war. Even nationalization had been anticipated and accepted as legitimate by progressive industrialists and Conservatives so long as it was pursued on a case by case basis and limited to "sick" industries mainly providing the infrastructure for private manufacturing. This was precisely the approach taken by the government and only when it appeared to breech this model of responsible social democratic behaviour, as in the case of the nationalization of iron and steel, did industrialists adopt a position of active opposition. For the most part, however, relations remained cordial if not always intimate, and what is most notable is the continuity between Labour's programme and wartime policy, rather than the break that might have been expected from Britain's first majority socialist government.

Economic planning had not received much attention in Labour's electoral programme, an oversight that was symptomatic of the views of the Party's leadership. In so far as the term was used during the lifetime of the government, it served largely as a justification for two main aspects of economic policy, first, the retention of direct controls

during the period of reconversion while supplies were still short and the balance of payments constraint paramount, and second, the use of the budget as the central mechanism for the regulation of demand. Planning in any wider sense was quite simply never even contemplated, let alone attempted, by the Attlee government. Given the commitment to wind up physical controls as quickly as possible, the pattern of state intervention was dictated by economic circumstances rather than by ideological motives. Controls were gradually removed as the conversion to a peacetime economy proceeded, only being reimposed or prolonged when economic pressure became overpowering, as most notably during the Korean conflict.

The new government did not initiate any significant changes in administrative machinery, opting rather to continue with the existing policy-making apparatus. However, one of its first acts was to wind up the Ministry of Production, transferring most of its functions to the Board of Trade. While this department might have been used as the basis of a planning department, its hasty abolition indicated the overall direction of Labour's economic programme, that is, reducing rather than extending state intervention into the private sector. Herbert Morrison as Lord President was nominally responsible for economic co-ordination but in fact shared authority for economic policy with Hugh Dalton as Chancellor of the Exchequer and Stafford Cripps as President of the Board of Trade. The basic structure of the war administration remained intact throughout the first years of the government, reflecting the consensus politics that guided Labour's leaders. When explicitly questioned about the adequacy of the planning machinery, a point that proved to be apt when the fuel crisis erupted unforeseen in the winter of 1947, Morrison complacently defended the existing organization. He rejected any idea of alteration, in particular the ever-pres-

ent proposal for an "economic general staff" in charge of a planning office (Leruez, pp. 37-40).

Labour's rather belated justification of its claim to a programme of economic planning appeared with the publication of the Economic Survey for 1947 in February of that year. This document attempted to legitimate the government's economic policies as an exercise in democratic rather than totalitarian planning. Whereas the latter implied the subordination of private decisions to state directives, "democratic planning" meant, in the words of Stafford Cripps, "a minimum of compulsion and a maximum of agreement, persuasion, consultation and other free democratic methods (cited in Rogow, p. 13)." In the alternative formulation of the Economic Survey, "A democratic Government must...conduct its economic planning in a manner which preserves the maximum possible freedom of choice to the individual citizen (p. 5)." In point of fact this process of "democratic consultation" with businessmen adamantly opposed to the continuation of wartime controls in any long term sense, much less anything like measures smacking of a real commitment to a programme of socialist transition, led the government rapidly away from anything like a co-ordinated planning exercise. The political constraints implied in the commitment to consensus politics and the soliciting of business collaboration effectively precluded any serious effort to plan the economy. As Rogow explains in his *apologia for the Attlee government*,

Labour leaders, in particular Sir Stafford Cripps, were increasingly persuaded that the objectives of private industry harmonized rather than conflicted with the aims of the Labour Government. Given this conception, controls which inevitably cause ill will and friction with industry, are far less desirable than voluntary co-operation and, indeed, if the argument is carried to its logical conclusion, controls become scarcely necessary at all (Rogow, p. 44).

Despite the inevitable consequence of this reliance on business

co-operation, the government continued with the charade of democratic planning, both as a means of self-justification and as a response to criticism of its inability to foresee the fuel crisis of the winter of 1947, an event which demonstrated the inadequacy of economic information. In March, 1947, Attlee announced the establishment of a Central Economic Planning Staff (CEPS) with Sir Edwin Plowden as first Chief Planning Officer as well as an Economic Planning Board (EPB). The CEPS was supposed to act as the "think tank" for long-term economic planning, providing information to the various departments and ministers. The EPB represented one of the first attempts at tripartite machinery, including the CPO as chairman and with members drawn from the employers' organizations, the TUC, the ministries directly concerned and the CEPS. Both bodies were strictly advisory, having no authority to act independently of government ministers. In effect they were simply window dressing; the planning staff supposedly in charge of co-ordinating the experiment was never allowed to gain the size or the influence that would have justified even a part of Labour's pretensions. While the Economic Survey of 1947 spoke optimistically of "targets" by 1949 there was only a mention of "estimates." In the succeeding years the Economic Surveys became less detailed and dropped all reference to even the notion of "democratic economic planning" proclaimed in the hard winter of 1947. Indeed, these documents were forgotten as soon as they were published and evidently exerted no influence whatever on the actual course of economic policy (Leruez, pp. 48-61).

The other administrative shake-up of 1947, the appointment of Stafford Cripps in September as Minister for Economic Affairs, indicated more clearly the actual direction of Labour policy. Cripps took over the tasks of the ailing Lord President, Morrison, namely the responsibility for economic co-ordination, and the Lord President's Committee

was replaced by two others, the Economic Policy Committee and a ministerial Steering Committee. With the resignation of Dalton in November Cripps became Chancellor of the Exchequer, effectively returning the responsibility for economic policy to the Treasury for the first time since 1942. The ascent of the Treasury symbolized the real path of the government, its primary commitment to a Keynesian economic programme through budgetary control. In fact, while 1947 was a watershed for the government, it marked the turning point not toward a co-ordinated strategy of long-term economic planning but rather towards the increasing relaxation of existing direct controls whenever economic circumstances permitted. While the fuel and balance of payments crises of 1947 prolonged the retension of the wartime system for the remainder of that year, by November, 1948, two major "bonfires" had removed the need for issuing 200,000 licenses per year, and a further "bonfire" in March, 1949, reduced the total by a further 930,000, effectively removing the greater portion of direct controls (Chester, 1952, and Worswick, 1952).

As mentioned above Labour's relations with industry were remarkably cordial although increasing strain marked the latter years of the government. This amicable relationship was hardly surprising given the commitment to work within the ideological consensus that had emerged out of the Second World War. For all the talk of planning the system of direct controls was in all essentials the extension of the system developed in the war only for as long as necessary during reconstruction. Industrialists could hardly complain too loudly about the system since they were still in charge of it. As Rogow describes it in his peculiar and uncritical manner,

Although the planning operation was often thought of, or at least discussed, as the chief concern of the Ministers and the Civil Service, it devolved in great part on industry itself, and especially the leading firms and trade associations. Indeed, the extent to which the Labour Government made use of business to plan and administer controls must be accounted one of its

most remarkable and contradictory characteristics (Rogow, p. 60).

In fact this "remarkable characteristic" involved nothing more than the continuation of the state corporatist framework of the war economy. The first CPO, Sir Edwin Plowden, was a director of British Aluminium among other firms. The Capital Issues Committee consisted of seven bankers, stock brokers and industrialists. The Chairman of the British Rayon Federation was a principal advisor to the Board of Trade. Unilever management occupied no fewer than ninety posts in the Ministry of Food. The leather controller was an official of the United Tanners' Federation, and so on. Virtually every producer department was headed by the appropriate business representative, often still on the payroll of their respective firms or trade associations. The defects of the system were particularly evident in the field of price controls in which the Central Price Regulation Committee, again staffed largely with business representatives, played a key role. Prices were consequently set at the levels requested by the trade associations based on their estimates of cost and desired profit levels. As a result the government was increasingly bedevilled with inflation, and "the resulting high prices were reflected in profits which for most of the period were the highest in the history of British industry (Rogow, p.68)." More generally the system meant not only that industrial capital was well placed to apply pressure for the control "bonfires" of 1948-50, but that the state was effective sanctioning a cartel arrangement which supported restrictive practices and the dominance of the traditionally powerful firms. The point is not that "democratic planning" was particularly open to corruption, but rather that it had an overwhelmingly corporatist flavour with the official backing of the government (see Rogow, pp. 60-68 and Leruez, pp. 61-67).

With the gradual relaxation of direct controls in the latter years

of the Attlee administration the relationship between industry and the state shifted towards a "semi-voluntary system" in which the sponsoring or producer departments were linked with the corresponding trade associations. While the departments had ill-defined responsibility for particular industries even during the inter-war era, the relationship was solidified during the period of direct controls. The continuing controls over some imports, capital issues and building licenses necessitated close contact in any case, and the links between the sponsoring departments and trade associations became the essential communication network between industry and the state for the postwar period. With the Board of Trade as the central ministry concerned with industrial and commercial affairs, this system was the main mechanism by which matters of government policy which impinged on business interests could be discussed and amended. Supplementing the sponsorship network was what one observer termed a "vast system of advisory and liaison bodies whose orbits lie between the departments of Government and the purely industrial organizations (PEP, 1952, p. 113)." While these bodies had likewise existed before World War Two, they had similarly gained in significance with the transition to a looser relationship between industry and the government. From the high level committees like the Economic Planning Board through middle level organizations such as the National Production Advisory Council for Industry down to specific industrial agencies which dealt only with particular aspects of individual industries, these advisory councils and committees acquired a permanent status in the Keynesian era. Their brief for discussion was as wide as that of the sponsorship-trade association nexus, and, indeed, the activities of all these organizations overlapped considerably (see PEP, 1952, chs. 5 and 6 and PEP, 1957, chs. 1 and 3 and U.K. Treasury, 1948).

However, if the informal links between industrial capital and the

state proliferated in the years following World War II, Labour's attempt to structure this relationship more formally met with a distinct rebuff. Cripps had set up a number of working parties, seventeen in all, primarily in industries which were dominated by large numbers of small producers and in need of rationalization and capital concentration. As a result of a number of reports by these tripartite committees the government passed the Industrial Organization and Development Act in July, 1947. This empowered the government to set up development councils in the industries concerned, also on a tripartite basis, but with no authority to order restructuring. They were to be strictly advisory bodies, providing information, training, scientific and industrial research, etc., and certainly there was no basis for the fear among some Conservatives and businessmen that the Act amounted to back door nationalization. In fact the proposed industrial development councils resembled nothing so much as the earlier programme put forward by industrial leaders, but business opposition had hardened by this time, and the Act was a resounding flop. In essence restrictionist bodies of a corporatist character were no longer necessary given the expansion of production then taking place. Industrialists now wanted fewer controls not more, and the provisions for trade union representation did not increase the appeal of the development councils. In addition industrial leaders were concerned that the councils, whose members were appointed by the Ministers, should not displace the by now legitimate role acquired by the trade associations, that of industrial representative to the government. In the end only three new councils were created, and these had no more than minor influence. The Industrial Development Act, like the experiment in "democratic planning" in general, was a total failure (Leruez, pp. 67-72, PEP, 1952, pp. 126-9, Blank, 1973, pp. 85-8, and Rogow, pp. 80-98).

The other area of increasing friction between industry and the Attlee government was of course that of nationalization. While the employers' organizations had not exactly welcomed the early nationalization measures (the Bank of England, coal, gas, electricity, the railroads and road haulage), they had confined their activities to securing concessions on the final details of the various bills, rather than risk a campaign of all-out opposition. In this industrial representatives were highly successful. Not only was the structure of the public corporations to their liking, modelled on the organization of private firms with no concession to workers' control and incorporating the former managements into the new hierarchy, but the generous terms of compensation released much needed funds for investment in more profitable areas. The coal owners alone received some £300m from the nationalization of the mines. However, the case of iron and steel seemed to breach the 1945 consensus, since this was neither a sick industry nor a public utility, although it was badly in need of massive investment and rationalization (McEachern, 1980). Business opposition to Labour's proposals intensified as the bill for public ownership was postponed in a hopeless effort by the government to secure an acceptable compromise. In the end the industry was nationalized, but only in part, and the various component firms were never merged into a single unified corporation. Consequently, the door was left open for rapid denationalization if Labour lost the next election, which is of course exactly what occurred. In this industry as in the others the industrial representatives managed to win their main objectives through the effective if indirect use of pressure on the details of the bill when they realized the inevitability of its passage through Parliament. Even Rogow noted the impotence of Labour in the face of this kind of opposition on the part of capital. "The steel dispute," he remarked, "at least suggests that some of the effective

limits of planning are determined not at the ballot box or by the planners themselves, but by the power interests of the affected groups (Rogow, p. 171)."

Relations between industrial capital and the government were put under further strain by the attempt to control prices and incomes in wake of increasing inflation. The "planning" initiative in fact corresponded with a shift from direct controls towards the greater reliance upon indirect economic management through the budget. The revival of Treasury control meant that Labour's relationship with industry was increasingly based on a policy of voluntarism, but this was quickly put to the test as inflation became the chief concern. By February, 1948, the government had secured a voluntary wage freeze from the TUC in return for voluntary prices and dividends restraint on the part of employers' organizations. These voluntary arrangements lasted for over a year, but by the summer of 1949 they were already being shredded by the combined pressure of rank and file unionists and recalcitrant employers. The devaluation of the pound in September hammered the last nail in the coffin of the voluntary wage freeze, although it took another year for the TUC Conference to reject the policy outright. By then relations with business had deteriorated over the issues of steel nationalization and the development councils, so that the leading organizations were under considerable pressure to end the voluntary policy from the employers' side as well. By the fall of 1950 the FBI was no longer willing to recommend a continuation of the policy of restraint to its members, which had in any case become more or less meaningless given the inflationary boom then being fueled by the Korean War (Blank, pp. 97-104 and Panitch, ch. 1).

By the end of Labour's turn of office industrial capital should have been well pleased with its efforts to influence Britain's first

majority socialist government. Relations with the Attlee administration had been agreeable if not cozy. The only two areas in which substantial disagreements had arisen, steel nationalization and the development councils, had been effectively debilitated although not exactly vetoed. Besides compensation for public purchase of shares industry was now the recipient of a large variety of direct and indirect subsidies. Not only could firms discount part of the cost of capital investment through the tax allowance scheme, but grants and loans facilitated specific projects, such as the £40m loan to British Aluminium in September, 1951, and the £10m re-equipment grant for the cotton industry in 1947-8. The government likewise provided one-third of the share capital for the new Finance Corporation for Industry, set up by the Bank of England together with the major clearing banks. The Industrial and Commercial Finance Corporation was erected on a similar basis to fund loans under £200m to aid smaller firms in an effort to close the "MacMillan gap" still yawning widely nearly two decades after its initial discovery. The government had in addition financed a number of new organizations to aid with research and development, including the Department of Industrial and Scientific Research, the Council of Industrial Design, the Agricultural Research and Advisory Council, the British Institute of Management and the British Standards Institute.

Yet, for all these efforts the politics of the "producers' alliance" had lost momentum by 1950, and relations between industry and the state were removed to arms length after a decade-long embrace. The reasons for this were fairly simple as indicated above. Corporatist politics had presupposed an economic climate of depression. They were essentially restrictionist in outlook, industrialists seeking state support in cartel arrangements to guarantee their existing shares of the market. While these policies worked well in wartime conditions when access to

a limited volume of supplies was the chief concern, postwar expansion seemed to demand a new relationship with the government. From 1947 there was a shift away from corporatist policies in the ranks of industry parallel to the emergence of neo-liberalism in the Conservative Party. In the immediate postwar period industrial capital supported measures of control and even the welfare state as these promised to prevent a return to ruinous depression conditions. However, the very success of the reconversion to a peacetime economy and the experience of full-employment created a new set of fears about the possible inflationary results of public sector expenditure and trade union power, not to mention the former's role as a competing consumer of the nation's resources. By 1950 planning was identified with the system of direct controls, even though in practice it had meant decontrol, and was consequently out of favour with industry as the latter looked increasingly for a return to the simple virtues of a market-regulated economy. Industry by now showed less and less concern with its relations with the state, except in so far as it wanted intervention in the private sector minimized. Economic liberalism had revived as the dominant ideology of industrial capital to an extent unseen in Britain for thirty years (Blank, pp. 108-110 and Harris, ch. 5).

In conclusion this period was marked by two important breaks in the relations between industry and the state and in the conduct of economic policy. The first came in 1941 with the development of the war-time planning apparatus and the installation of Keynes in the Treasury. From that point economic policy was formulated in Keynesian terms. However, what remained unclear until 1947 was the political-economic context in which such a policy would be embedded. In the latter years of the war it seemed possible that the representational links between industry and the state would assume a more formal, perhaps

even statutory casting. Similarly, the extent of state intervention and control over the private sector and the degree to which fiscal policy would be subordinated to a national planning procedure had not been settled. From 1947 the general trend towards decontrol was apparent despite various setbacks. Relations between industry and the state were institutionalized on an informal basis via the sponsorship network. As direct controls were removed and the nationalization programme largely completed, the limits to state intervention were established. The rather weak impulse to develop a voluntary planning framework was abandoned in the face of employer hostility. Instead budgetary policy assumed centre stage as the key instrument of economic regulation, and with it the Treasury resumed its pivotal role as the central department in charge of economic policy. In effect this implied a reversion to a bureaucratic mode of procedure, although the context of "Treasury control" in the post-war period obviously implied a significant break with pre-war practices. Given the vastly expanded role of the public sector and the commitment to full employment and a whole range of welfare provisions, macro-economic policy could no longer be formulated with reference to the position of state finances alone. What emerged out of this period along with the informal set of state-industry relations was a form of indirect economic regulation without much in the way of institutional support (apart from the brief flirtation with prices and incomes policy), a programme which might best be termed "pure and simple Keynesianism." While in the short run this proved to be relatively successful, it left successive governments ill-equipped when faced with a new set of dilemmas consequent of the return to full employment, mainly inflation and structural change. These tensions are the theme of the next chapter.

CHAPTER FIVE

Conservative Liberalism and the Return of the City, 1951-60

By the time the Conservatives returned to power in October, 1951, the stage had been set for a broad bi-partisan consensus on the parameters of economic and social policy that became known as "Butskellism," after the Labour leader, Hugh Gaitskell, and the Tory Chancellor, R.A. Butler. The Labour leadership's experience of strong opposition to planks associated with the left wing of the Party (the use of direct controls and rationing, the extension of nationalization to profitable sections of industry and economic planning) had convinced it that such programmes were an electoral liability. Subsequent development in social democratic theory in the 1950s added legitimacy to this essentially pragmatic position by asserting that such measures were not only politically inexpedient but economically superfluous. As most cogently expressed in Anthony Crosland's, The Future of Socialism, the basic objectives of full employment and social welfare were now accepted by capital and the public at large, and public ownership was increasingly irrelevant to the aims of socialists. Socialist policy in this view ought to be confined to greater social equality through fiscal redistribution and the expansion of educational opportunities and social welfare measures, while planning was redefined as the combination of Keynesian management and ad hoc state intervention in areas where market allocation of resources was deemed inefficient or socially disruptive, i.e., in industries requiring high and risky capital outlays, to secure regional balance, etc. (Crosland, 1963, esp. Pt. 5). The Conservatives, while they might express different priorities in their taxation and spending

policies, had for their part largely accepted the inevitability of the welfare state, the existing sphere of public ownership apart from iron and steel and road haulage and the expanded role of the state as the primary customer of the private sector and guarantor of full employment. Keynesian demand management had apparently secured political legitimacy, and the revival of the Treasury with a free hand in determining the budget unequalled in any of the other advanced capitalist states offered an ideal locus for counter-cyclical economic policy through fiscal and monetary instruments outside the direct party political influence of Parliament.

Yet, by the end of the decade rumblings of discontent with "Treasury control," "stop-go" policies, and the sluggish rate of economic growth could be heard in Parliament, the national press and most significantly within the ranks of industrial capital. While there had been no return to the dismal economic performance of the inter-war years, the trade cycle still manifested itself in an attenuated but increasingly severe manner, and the balance of payments, so it appeared, exercised a limiting constraint on the pace of economic activity. The decade that began with a celebration of "Tory freedom" ended with growing dismay at the decline of Britain's position vis-a-vis her chief economic competitors and a renewed enthusiasm for the once discredited programme of economic planning, particularly within the ranks of large industry. Industry's flirtation with economic liberalism was thus very brief in historical terms, and the background for this about face is the chief subject of the following section.

The Conservative return to office after their marginal victory over an intellectually exhausted Labour government thus signalled no great departure in economic policy. While pledged to "set the country free" from Labour dirigisme and austerity, the new government initially

clamped down controls somewhat tighter than they had been under Attlee. However, as before the election these measures were largely dictated by the state of the economy, and the Tories continued the programme of decontrol as quickly as circumstances permitted, indeed often prematurely. If the Conservatives moved cautiously at first, the success of reconversion to a market dominated economy inspired greater enthusiasm, and the pragmatic steps of the initial stages soon hardened into a doctrinaire commitment to free market ideology whatever the economic cost.

The success of the policies of decontrol were not due to any inherent superiority of market forces over politically set controls as an allocator of resources, however. Conservative freedom worked in the early fifties essentially because the terms of trade turned very advantageously in Britain's favour once the Korean War boom had dissipated. The drop in price of imported primary goods and foodstuffs stabilized the cost of living and allowed for a dramatic increase in home consumption and production without affecting the balance of payments. Likewise, investment remained low until 1954, partly due to the cutbacks in the initial allowances, and consequently did not compete with domestic consumption for the nation's resources. When investment finally revived in 1954-5, partly spurred on by an increase in the initial allowances in the budget of 1954, and the price of imports began to rise as well, the bottlenecks of a strained economy became all too apparent. With the stagnation of labour productivity in 1955-6 coupled with accelerating wage increases to the order of 7% per annum, the economy began to suffer from the combined effects of inflation, stagnation and balance of payments deficits that has afflicted it ever since. Conservative liberalism, it seemed, did not always live up to its promised results . (Shonfield, 1958, ch. 2).

By 1955 in other words Britain was beginning to experience a combination of negative features that led Shonfield for one to speak of "the climacteric of 1955," drawing the appropriate parallel with the circumstances of decline in the late 19th century. In brief the central problem was that the twin policy goals of a high investment rate and expanding economy on the one hand and a strong and ultimately convertible currency on the other now appeared conflicting rather than complementary aims. This complex was officially recognized with the publication of a government White Paper, The Economic Implications of Full Employment, in 1956, which drew attention to the possible lack of compatibility of the three Keynesian policy aims, full employment, price stability and economic growth, and questioned for the first time since the war the priority of the first over the other two (see also Crouch, 1977, p. xiv). The ingredients of the sterling crises of the 1950s were indeed largely the same as those vicious cycles of previous decades. Various interests centred on the City and the Bank of England successfully pressed for an early return to convertibility and a revived international role for sterling, and the result was a clampdown on home investment and the debilitating effects of stop-go policies. The crisis of 1955 set a pattern for successive years, a failure of confidence in the pound, largely due to speculative movements by overseas holders, was countered by deflationary measures at home, on the groundless basis that the key problem was domestic inflation, thus restricting investment and economic growth. From then on economic policy was largely determined by the state of confidence in sterling, which meant three years of more or less deflationary policies (Shonfield, 1958, ch. 8). To explain this course of events it is necessary to look more closely at the "problem of sterling," the role of the City and the Bank of England and the relationship of these to Conservative free market ideol-

ogy.

As noted above during the course of the war the sterling area had been welded into a monetary union with London in a controlling position. In the post-war years the sterling area emerged as the key economic link between the countries of the former Empire, a kind of club which discriminated against dollar imports (with American financial backing) and in which the British government perceived its role as that of banker to various client states. The sterling system was dependent in the post-war years on an open door policy for capital exports from the City of London. The banker-client relationship meant that in return for holding their sterling balances in London the member countries were supplied with such foreign currencies as they required for imports and more importantly that the British government would assist their investment needs by providing the means for capital export and by giving them priority in foreign aid. The net cost on the capital account of the balance of payments was in the order of £150m per year in the 1950s, two-thirds of which was private investment. While Britain had ended the war as a large debtor for perhaps the first time in her history, this loss of overseas holdings had been made good by 1950; yet, heavy capital outflow was allowed, even encouraged, throughout the decade. While the British government saw its role as that of a banker with the traditional notion that such a position would give it the power to discipline the various client countries to "live within their means," the latter looked upon their sterling balances more as an investment fund which would either guarantee that they received loans and investment capital from the metropolis or could simply be run down as needed to finance current account deficits. Particularly in the latter half of the 1950s this depletion of the sterling balances had a significant impact on the balance of payments. Moreover, the main beneficiaries of the sterling

area system were not the underdeveloped colonies but the independent white dominions, as the dollar surpluses of the former were transferred to cover the deficits of the latter (see Shonfield, ch. 6, Conan, chs. 2 and 4 and Polk).

The use of Marshall Aid funds offers one index of the effects of government priorities in economic policy. On the Continent these funds were for the most part channelled into industrial reconstruction, thus forming the basis for the "economic miracles" of the 1950s. In Germany for example industrial capacity had not been so badly damaged as often imagined, but the capital market was in a shambles. The stock market did not play a major role in industrial investment as new issues remained nearly as low in 1948-52 as they had been in 1908-12. Yet, investment was maintained, largely through the use of short-term credit facilities of the major banks. Marshall Aid counterpart funds in other words were diverted into industrial investment through the agency of the banking network, breathing new life into German finance capitalism. The counterpart funds represented 44% of total long-term industrial finance in 1949, declining thereafter. The German state later aided the banks by placing considerable deposits in their hands, accounting for a considerable proportion of the increase in their assets and their capacity to lend to industry. Thus behind the "social market" ideology of the F.R.G., which so enticed Young Conservatives in the 1950s and later, lay a high concentration of credit through state support of the banks and the careful use of Marshall Aid. Similarly, in France in the period of 1949-52 Marshall funds were used to finance about one-quarter of public investment which again through the planning agencies and state banking system were funnelled into industrial restructuring. In Britain by way of contrast the counterpart funds were used to redeem government

securities and thus reduce the national debt, largely out of consideration for the country's international and military obligations, especially to the sterling area (Hu, pp. 14-27 and Shonfield, 1958, p. 268).

The balance of payments did exercise a constraint on economic policies in the 1950s but not, as sometimes thought, because of a short-term weakness in British exports. The current account was in surplus throughout the decade apart from 1955, yet rather than using this surplus to build up reserves the government allowed it to be invested abroad. Indeed, official policy was to achieve a positive balance on the current account just in order to finance capital export. The real sources of strain on the balance of payments were primarily these commitments to maintain and revive Britain's overseas presence; capital export and military expenditure drained off the surplus on the current account. The pattern of capital investment was distinctly different from the pre-war variety as it now took the form of direct rather than portfolio holdings, i.e., British companies were extending their operations in a multi-national direction. However, interestingly enough the return on such investments hardly justified the exercise since it was on average no higher and possibly lower than the net after-tax return on domestic investment in manufacturing industry (Caves et al, p. 176). Moreover, even apart from balance of payments considerations home investment of course improves productivity much more directly than overseas investment. While the usual justification for the latter is that it increases the demand for exports, this is much less obviously the case when such investment goes primarily to other industrial nations, e.g. the white independent countries of the Commonwealth. In addition the return on such investment overseas must be balanced against the military cost of maintaining governments abroad friendly to British interests (Shonfield,

chs. 4 and 5 and Worswick and Ady, 1962, ch.6).

The top priority of Tory economic policy was then the revival of an international role for sterling and ultimately a convertible currency. From 1951 when London reopened as an international market in foreign exchange to the return to convertibility in 1958, the story in essence is one of successive removals of the restrictions on financial transactions in an attempt to restore sterling and London to their former positions in world finance. The increased use of sterling in international transactions was buttressed by its role in the protected sterling area, both functions in effect sustaining the illusion that it was possible to return to the golden age of the by then distant past. However, besides the negative effects on economic policy the whole system was as dependent on contingent factors as the gold standard system of the 1920s: 1. the necessity of American tolerance and support of an economic system which discriminated against the dollar, 2. a continuous massive outflow of capital, and 3. the capacity and willingness of the dependent countries to earn dollars and exchange the surplus for larger sterling balances in London, all of which allowed the system to continue on the basis of extremely low reserves even by British standards (Strange, ch. 2 and Polk).

The policies of the various Tory governments of restoring a free market economy, an international role for sterling and a discriminatory association of "Commonwealth preference" were thus mutually reinforcing. The end result was to delay the recognition of sterling's decline from what Strange terms its top currency position in international financial transactions, and no doubt to contribute to the complacency of British exporters since they could rely on protected markets, though their share of even these was steadily on the decline. The acceptance of these constraints, especially the need for a surplus on the balance of pay-

ments, made the management of the domestic economy that much more difficult and constituted the major factor behind the deflationary policies that characterized the latter half of the 1950s (Strange, p. 71).

The programme of liberalizing controls on exchange made the pound much more susceptible to the whims of world financial confidence. It was this failure of confidence rather than the balance of payments constraint which fostered the three-year sterling crisis that began in 1955. While there was a deficit in that first year, it was not as great as that of 1938, yet the latter had not been accompanied by a run on the pound. In any case the pressure on sterling continued throughout 1956 and most of 1957, when the balance of payments had returned to the black. The source of speculation was the widespread belief at the time that sterling was about to become completely convertible and that the government would adopt a floating exchange rate. The basis for the rumours was not hard to find since the Conservatives had long been flirting with the notion of a "two lever" control over the economy, that is limiting the exercise of state manipulation to the Bank rate and the exchange level. From 1952 when the Tories had seriously considered the dramatic introduction of such "automatic" regulators under the appropriate code name of "Operation Robot" up through the crises of 1955-57, the usefulness of employing foreign confidence to discipline the domestic economy had exercised an understandable attraction for Tory free marketers. Given the balance of payments weakness in 1955 and the low state of the reserves, these rumours of a rapid move to convertibility and a floating pound were quite enough for foreign holders of sterling to anticipate the removal of controls by making a run on the already porous defences of the pound. The crises were in a word essentially speculative (Shonfield, 1958, ch. 8).

However, it was not merely expectation and rumour that fueled speculation against sterling at this time. It was the realisation that the Bank of England was regaining the upper hand in determining the thrust of economic policy and that this return to its former position of dominance could only mean convertibility at the earliest practicable moment, if not before. As Shonfield reports,

The impression of many observers at this time, in the first half of 1955, was that the Bank had more or less taken over the direction of British policy, and that the Chancellor of the Exchequer was prepared to do whatever was necessary at home in order to sustain the appearance of a continued movement towards sterling convertibility abroad (*ibid.*, p. 201).

The revival of the Bank rate as a key instrument of policy and the initiation of operations by the Bank in overseas markets to ensure that the unofficial rate kept in line with the official rate confirmed these impressions. By pushing up the rate in overseas markets the Bank hoped to demonstrate the ripeness of the moment for convertibility and thus make the final "dash for freedom." Paradoxically, the rumours of such a move were enough to prevent its actual occurrence, for the subsequent flurry of speculation against the pound forced the Bank to disavow its rather too overt courtship with floating rates and persuade in turn the Chancellor to make public pronouncements to the same effect in order to stem the crisis (Shonfield, *ibid.*, ch. 8 and Brittan, 1971, pp. 197-200).

The Bank of England's support for floating exchange rates is somewhat surprising given its previous and subsequent hostility to such proposals. The reasons for this temporary conversion are, however, rather simple. In essence it was seen as a necessary if regrettable sacrifice for the overriding goal of convertibility. In the earlier case of Operation Robot the Bank had expected devaluation in any case owing to the rearmament programme and the collapse of the Korean War boom and wanted to make a virtue of necessity by securing convertibility as part

of a package deal. Put another way the City was, as the Economist noted at the time, "for the first time, willing to accept a fluctuating exchange rate for sterling as the price that has to be paid for this step towards convertibility (cited in Dow, 1970, p.83). While this step had been rejected in 1952 as too drastic, similar ideas remained current up to the summer of 1955 as part of a "collective approach to convertibility" on either a sterling-area or European basis. For the Bank such unorthodox measures as floating rates were deemed acceptable if distasteful concessions in order to achieve a convertible pound, which was assumed (much like the gold standard in 1925) to be an end in itself. The parallels between the two conjunctures are rightly emphasized by Shonfield:

behind the foreign exchange policies pursued by the Bank in the 1950s, it is possible to discern the same larger objective as that which was ultimately obtained by Montagu Norman in the 1920s. The advent of convertibility, like the restoration of the gold standard in its day, would prove to be a ruthless and effective disciplinarian of the home economy (Shonfield, *ibid.*, p. 208).

The Bank was simply attempting to reassert the effective veto of finance over the Keynesian state by exposing the exercise of economic policy to the confidence of foreign (and domestic) holders of sterling, thus ensuring that structural constraints could compensate for whatever political weakness the future might bring for it and its City patrons.

The government and the Bank of England baulked at convertibility at the last moment, just as they had in 1952, when it became clear that the experiment was premature. In the case of Robot the plan had been vetoed by Churchill, who was influenced by Lord Cherwell and Sir Arthur Salter (the corporatist ideologue). Cherwell in turn relied on the advice of G.D.A. MacDougall and Salter on that of Sir Robert Hall, the Chief Economic Advisor to the Treasury from 1947 to 1961, and Lord Plowden, the CPO until 1953. These expansionists and anti-liberals within the Treasury continued to argue for caution in the middle years of the decade. Likewise, Conservative Chancellors in the fifties, Butler,

MacMillan and even Thorneycroft, and no doubt Sir Winston himself, were somewhat chary of adopting tout court the Bank's programme of a "dash for freedom" given the experience of blindly following the advice of Montagu Norman in the 1920s. Consequently, the next few years witnessed continued vacillation in economic policy, the result of the "unending cricket match" between the Bank and the Treasury expansionists, the end product of which is better described as a drift rather than a dash towards convertibility (Brittan, 1971, pp. 95-96 and 196 and Shonfield, 1958, pp. 212-224).

From 1955 through 1958 the government pursued deflationary policies, although the same conflicts within the administrative machinery produced a pattern of vacillation and about turns, punctuated by sterling crises at the end of 1956 and the summer of 1957. The appointment of Sir Edward Boyle as Economic Secretary to the Treasury in the spring of 1955 and Harold MacMillan as Chancellor of the Exchequer later in that year added two expansionist voices in key positions. Their reign did not last very long, however, as MacMillan became Prime Minister in the wake of the Suez crisis and Boyle was replaced by Nigel Birch in early 1957, who was "by training and temperament a City man (Shonfield, *ibid.*, p. 231)." Consequently, the prevalence within the Treasury of a highly circumspect attitude towards the efficacy of Bank rate changes and market forces had a short life and was hardly well entrenched in any case. The new Chancellor, Peter (now Lord) Thorneycroft, was politically aligned with the free market, orthodox finance wing of the Tories, but initially at least he followed the cautious line of the expansionists. At this point he was apparently influenced by Sir Robert Hall, and evidently proposed the introduction of an incomes policy or wage norm of the voluntary sort later favoured by Labour. This plan did not pass muster with the Cabinet, however, and the only

concession to the notion was the creation of the Council for Prices, Productivity and Incomes, which in any case came out in favour of monetary deflation (Brittan, 1971, pp. 207 and 210, Shonfield, 1958, pp. 229-232 and Council on Prices, Productivity and Incomes, First and Second Reports).

Thorneycroft's instincts got the better of his advice as a result of the third run on the reserves in as many years in September, 1957 and he effected a rapid 180° turn. This crisis was more or less equivalent to those of the two previous years, although unlike the first there was not even the plausible excuse of a balance of payments deficit. Again it was purely a question of foreign confidence and the expectation of an exchange realignment as a result of the French devaluation and the chronic surplus on the German current account. While the Treasury continued its public commitment to the existing rate, there was no doubt a continuing debate on the matter within the policy-making apparatus, and in any case, "The imminent likelihood of a new policy was widely believed in the City (Dow, 1970, p.87)." The move to convertibility was postponed once again, but overnight Thorneycroft was transformed into a hard money man. Although one of his first acts as Chancellor had been to lower the Bank rate, he now boosted it to a post war record of 7% following the bankers' logic that internal inflation was to blame for the crisis. Wage rates had in fact been decelerating and unemployment was on the increase when he decided to call for a new dose of austerity. Moreover, while investment had been rising for several years despite the Tory attempt to restrain it, production had only just returned to its 1955 level after the previous deflationary measures. Treasury economists were expecting a recession in any case and believed that the already substantial slack in the economy would increase in the next few months. The crisis was purely one of loss of confidence in the financial world,

which looked agast on wage increases in excess of productivity and sought severe monetary discipline as an antidote. Thorneycroft simply adopted the advice of his new mentors, the monetarist, Lord Robbins, and the Governor of the Bank of England, Lord Kindersley, who advocated at the time that the "Bank rate had got to be raised and raised properly (Dow, 1970, p.100)."

Thorneycroft's "September measures" besides jumping the Bank rate from 5 to 7% included cuts in public investment and restrictions on capital issues and a directive to the banks to limit their advances. The Chancellor was now working in close concert with Enoch Powell, the Financial Secretary and noted free marketer, and the aforementioned Nigel Birch, who together "were largely responsible for turning the anti-inflationary policies into a crusade (Brittan, 1971, p. 213)." The neo-liberal programme suffered another reversal, however, in January, 1958, when the doctrinaire commitment to cuts in public expenditure failed to win the support of the Prime Minister or the Cabinet, and the trio handed in their resignations in a dramatic if superfluous gesture. Thorneycroft was replaced by Heathcote Amory as Chancellor, and the post of Economic Secretary was left unfilled until Anthony Barber took over after the general election in October, 1959. While Amory had supported the "September measures" and was as orthodox as Thorneycroft as regards inflation, he eventually succumbed to expansionist pressure. However, his first budget was still dominated by the fear of upsetting financial confidence and was thus only mildly expansionist despite rising unemployment and a predicted balance of payments surplus. While Amory did not share Thorneycroft's theological temperament, he was devoted to the same priorities and apparently not at all distressed by the prospect of a rate of economic growth of no more than 1% despite the possibility of greater expansion. Price stability was his central concern

as he himself expressed: "We want to see production and employment just as high as we can, consistent with maintaining the value of money (cited in Brittan, 1971, p. 221)."

Favourable changes in the terms of trade allowed Amory to pursue modest expansion in 1958 and still maintain price stability as well as add something to the reserves. Yet, the recession continued through 1958, as the policies designed to please the financial world were not compatible with the counter-cyclical measures which Keynesian theory deemed appropriate. In December, 1958, sterling was finally made convertible for foreign holders thus removing the last of the flimsy defenses which had been breeched repeatedly in any case over the previous few years. The recession became increasingly worrying to the government, however, and Amory responded with a series of concessions on hire purchase controls, public spending, bank lending and initial allowances. Unemployment reached 620,000 in January, 1959, and in the wake of enthusiasm over the success of convertibility and with due consideration for the forthcoming election, the Chancellor introduced the most expansionary budget of the post-war period, offering tax reliefs in the order of £360m. In fact production had already begun to turn round when the budget was brought in, and Amory was simply playing the "go" card in electoral politics. Economic activity rapidly heated up, resulting this time in a serious balance of payments deficit, the vicious cycle that was to dominate efforts at steering the economy for the next decade and more.

Relations with industrial capital had in the meantime come under increasing strain as low investment and growth undercut the competitiveness of British manufacturers and as the gradual but inexorable dissolution of the imperial network forced a reappraisal of industry's dominant strategy for the past half century or more, i.e. its reliance

on using a protected export market as a buttress for its domestic position. By the end of the decade leading industrialists were joining the chorus of criticism of neo-liberal political economy and deflationary policies of which, paradoxically, they had earlier been among the most prominent advocates. In 1960-61 they were first off the blocks in the "dash for planning" which marked the about turn in relations between business and the state that characterized economic policy in the 1960s. However, it took a decade of negative experience of the politics of decontrol to achieve this reversal of attitudes, and for the most part of that period industry was critical of the Conservatives for being too hesitant in the application of deflationary measures and the general programme of "economic discipline." Industrialists were in short caught in a contradictory conjuncture as on the one hand they saw the restoration of market forces as the only alternative to the wartime system of controls and planning, which, while totally dominated by their spokesmen and agents, contained the seeds of an alternative economic framework that promised only danger for the long term no matter how compliant the leadership of the Labour Party; on the other hand the hands-off policies of decontrol and the exposure of British economic policy to the effective veto of sterling holders were so disruptive in the long term to their investment strategies and position in both foreign and domestic markets that they were forced to return to the only programme that had paid off in terms of concrete results in the past, that of "democratic planning," particularly as this seemed to be a key ingredient in the "economic miracles" of their Continental rivals. I shall return to the planning initiative in the following chapter. The focus of this section is rather the growing realization on the part of some industrialists that they were paying the price for Tory freedom and the City's revival.

The period of 1951-60 was one not just of a gradual loosening of the relations between industry and the state but one of a gradual decline in the authority of the FBI over its constituent members. Even before 1951 the Federation had been one of the louder voices in the neo-liberal choir and, indeed, was frustrated by the hesitation of the Conservatives in pursuing the free market strategy. The FBI was disillusioned with the government's evident slowness in taking up its policies, e.g., rapid denationalization of steel, large cuts in public expenditure and taxation, ending the excess profits tax and dividend restraint and the general lifting of other direct controls which restricted corporate autonomy. The change of orientation dated back to 1947, and the demand for public expenditure cuts and lower taxation was the central repetitive theme in FBI statements from that date onwards. However, the force of the Federation's arguments was undercut by its inability to specify where cuts ought to be made, and in later years by the apparent lack of unanimity on such questions as incomes policies. While there might have been discontent over the Conservatives unwillingness to force the pace of decontrol given the international economic situation, there could be little doubt that the goals of the government and industry's central peak organization were in the main convergent. In any case the rapid expansion after the Korean impasse diffused the urgency of such criticisms and relations between the two were cordial, if less than intimate for as long as the boom lasted (Blank, 1973, pp. 119-127).

The movement away from close collaboration with industry over economic policy was thus continued despite the change of government. This was largely a product of economic liberalization; since the state was no longer intervening in the economy in such a detailed fashion, there was simply no need for business representatives to staff the various

state agencies. The latter were not so much abolished as allowed to decay so that by the middle years of the decade little was left of that "vast system of advisory and liaison bodies" which had seemed so characteristic of modern capitalism as late as 1951 (PEP, 1952, ch. 6). The Conservatives in any case preferred informal consultation in the clubs and private homes to the formal system necessary to a Labour government or an interventionist state, and the political necessity of not associating too directly with big capital tailored well with neo-liberal ideology and the preference for the simple if somewhat brutal instruments of monetary policy. This hands off attitude suited industry's mood as well, since the FBI was by now highly sensitive to accusations levelled against it of acting increasingly as a state agent. The leaders of the Federation were far less willing to be the initiators of any policies that would tie them to the system of state regulation, preferring to reflect the essentially negative posture of the FBI's members and its rival organizations, i.e., less government, lower taxation and the restoration of market discipline. So by 1955 the system of government-industry relations had been reduced to informal and infrequent contacts at the higher levels on matters of macroeconomic policy and the continuation of the sponsorship network between state departments and their respective industries on the details of such policies and government legislation (PEP, 1957). This situation was well suited to all the parties concerned so long as the economic boom continued despite the fact that "with less contact between government and industry, and less desire to maintain close relations, habits of consultation were forgotten (Blank, 1973, p. 125)." When the series of sterling crises broke in the latter years of the decade, however, this relationship did not turn out to be quite so symbiotic.

The immediate reaction of the FBI to the sterling crises, however, was simply to become more strident in its demands for deflationary measures. It concurred with the orthodox view that the source of the problem was the high level of internal demand and that consequently it was the government's responsibility to remedy the situation with the traditional medicine of public expenditure cuts and greater unemployment. In particular the FBI refused to countenance any voluntary restraint of prices or dividends on its own part, believing along with most industrialists that the earlier experience of 1948 had been unfair and objecting to the "increasing tendency to thrust the burden of readjustment on to industry" and the same time as it demanded further deflation (cited in Blank, 1973, p. 129). This rather bizarre position was matched by the dogmatic insistence that cuts in public investment be made as a precondition to any consideration of private sector restraint, despite the fact that the Conservatives had already made considerable incursions in precisely that direction. The appointment of Arthur Shenfield as Economic Advisor in 1955 reinforced the dogmatism and inflexibility of the FBI's orthodoxy as his theological adherence to the "demand pull" analysis of inflation was soon reflected in policy statements, especially Britain's Economic Problems and Policies, a pamphlet published by the Economic Policy Committee in early 1957 (FBI, EPC, 1957 and Blank, *ibid.*, pp. 127-31).

This confusing picture of industrial attitudes in the mid-1950s is further complicated by the divisions on the question of incomes policies. In the wake of the sterling crisis of the summer of 1955, the British Employers' Confederation called for wide-ranging discussions with the TUC on the state of the economy. The FBI was determined more than anything else to avoid a return to the voluntary restraint policies that had characterized the latter stages of the Attlee government, and

relations with the Conservatives had truly soured as a result of this flanking manoeuvre. In March, 1956, the FBI refused the Mac-Millan government's request to co-sponsor with the TUC a White Paper on inflation which emphasized the increasing costs in the private sector as the main factor. Only in July were the FBI and BEC, joined by the NUM and the ABCC, finally won to the government's view of the need for a "price plateau." The price was a pledge from the heads of the nationalized industries to freeze their prices as well as a £100m reduction in public expenditure. Here again, however, the FBI was not so much initiating a new policy direction as falling in with the increasingly militant mood of employers in general in the drive to hold the line against spiralling wage claims and stagnant productivity. The rejection at the TUC Conference in September of any policy of voluntary restraint made the whole issue a dead letter. Industry's preferred policy of sharp deflationary measures was in any case put into effect in September, 1957, under Thorneycroft with an enthusiastic response from the FBI despite the recognition that industry would have to pay part of the cost of going to "the root of inflation." As expressed in an editorial in the FBI Review, "Though the new measures will bear heavily on some sections of industry, the FBI could hardly condemn the Chancellor for carrying out policies with it has frequently recommended to him (FBI Review, Oct., 1957, and Blank, *ibid.*, pp. 131-38). Industrial leaders were fully in agreement with a policy that treated domestic inflation as the main enemy and were willing at this point to put up with industrial stagnation to achieve zero inflation.

While approval of the "September measures" was reaffirmed in the statement, Fighting Inflation, issued in March, 1958 (also penned by Shenfield), as the recession began to bite the FBI became increasingly concerned with the results of the measures it had so persistently advo-

cated (FBI, 1958). With a rapid decline in the growth of fixed investment down to a zero level in 1958 and an equally dangerous rise in unemployment to the highest levels since the Second World War, industrialists began to rethink the course of the general economic programme they had supported for the past ten years. The first two of the Industrial Trends Surveys initiated in the early months of 1958 confirmed the depth of the recession and credit squeeze, and the Federation now added its voice to the rising clamour for expansionist measures, even reversing its previous stands on public expenditure and investment. The result was a substantial jab for the economy after the recession had already bottomed out, as described above (FBI Review, March, 1959). The economy soon overheated once again with subsequent balance of payments problems in 1960 and the reimposition of credit restrictions and hire purchase controls in April of that year. This time, however, the FBI objected to the imposition of measures designed to resolve the short-term problems of the economy. In the spring of 1960 industrial capital was beginning to perceive that the "stop-go" policies of the past decade were destabilizing to industrial investment in the long run and were no aid in the attempts to expand British exports. Economic planning, which had been the dirty word of the 1950s, was once again taken out of moth-balls and launched as the new redeemer of the British economy (Blank, 1973, pp. 139-142).

The evidence submitted to the Radcliffe Committee, established by Thorneycroft in the wake of the financial crisis of 1956 to investigate the working of the monetary system, offers some insight into the contradictory pressures and conflicts both within industrial capital and between industry and finance in this period. In general one may say that the Bank and financial institutions expressed satisfaction over the main lines of monetary policy. From their perspective the fault lay not in orthodox

monetary instruments nor in the financial system but in the features of the Keynesian state that undercut the effectiveness of the above, principally "over-full" employment and public sector borrowing. The views of industrial representatives were on the other hand considerably divided, especially on the question of the efficacy of Bank rate movements as an instrument of credit restriction. Spokesmen for big industrial capital were uniform in their view that monetary measures before 1958 had no significant impact on their investment plans, while small industrial capital felt the pinch of dear money much more directly. This perhaps more than anything explains the continued support on the part of such organizations as the FFI for deflationary policies, as the large, and increasingly multi-national, firms did not suffer directly from such measures at least in the short run. They were able to finance investment out of their own liquid resources and thus concurred with the orthodox view that fighting inflation and maintaining a surplus on the overseas account ought to be the priorities of government economic policy. Representatives of small industry were much more critical of the general operation of monetary policy, having felt the credit squeeze more drastically, especially since many small firms relied on bank overdraughts for the finance of capital expenditure. They similarly reproached the City for not catering to their medium and long-term financial needs, reaffirming in contrast to big industrial capital the continued presence of the "MacMillan gap." Finally, there was virtually no questioning by any of the participants, including the TUC, of the external commitments of the British state or the programme of reviving the overseas presence of British capital through massive foreign investment.

The evidence of the Bank of England was characteristically self-satisfied and defensive. The Governor saw monetary measures as "considerably successful" over the past few years. More particularly, "in 1952, and again in late 1955 and 1956, monetary measures helped significantly to

restrain the boom, and, if they had not been used, the present economic situation would be much less healthy than it is." The Bank admitted at this point (July, 1957) that altered conditions of the post-war period had meant that "it was impracticable to rely in monetary policy on any automatic remedy to meet any particular change in the situation." Full employment had changed business expectations about economic trends and consequently "control by monetary authorities is more difficult than at at times when good and bad trade alternated more sharply." Other factors undermining monetary control were state encouragement of capital expenditure outside the influence of monetary measures (like public sector investment), the large liquid balances of big companies, and the low level of bank advances which the financial institutions were anxious to increase.

None the less the Bank affirmed that,

Experience has shown that, in the general objectives of moderating fluctuations in the economy, the Treasury and the Bank, acting together and with the co-operation of the banking community, can do much by formal and informal methods to control the level of advances, the banks' policies towards securities, liquidity and so on. But the basic need remains the ability to regulate the total quantity of currency and bank deposits. Monetary measures will, in the long run, only be effective if Government policy as a whole is directed to keeping the money supply under control and the public are persuaded that this objective will be achieved (Committee on the Working of the Monetary System, Principal Memoranda of Evidence, Vol. 1, pp. 3 and 36; see also Minutes of Evidence, paras. 2251-2319).

The Bank likewise maintained that the role of interest rates was an integral and effective aspect of monetary policy, given the above provisos about general conditions and other aspects of policy. The effect of interest rates was deemed "partly actual and partly psychological," and consequently difficult to specify in exact terms. The post-war situation, especially the higher rates of taxation and the expectation of continued inflation, had also undermined the effectiveness of higher interest rates — discouraging borrowing and the ability to sell long-term fixed-interest government bills. The importance of the latter point, i.e. the need to turn to Treasury bills to fund the public debt thereby increasing the liquid-

ity of the banks, led to the ultimate suggestion that "a formal limit should be set to the size of the debt (ibid., p. 38)," a suggestion that was to return in later years. On the foreign exchange market as well the Bank still felt that Bank rate changes influenced the flow of funds to and from Britain. In this case as well, however, various conditions impeded the functioning of traditional monetary instruments:

The actual change in the level of interest rates is subsidiary nowadays to the effect on confidence in sterling which a change of Bank Rate can exercise, when it is taken abroad as a sign that measures are in hand which will fundamentally improve the economy. In post-war years, there have been periods when confidence has been lacking and a level of interest rates in London higher than in other countries has failed to attract funds from abroad (ibid.).

The Bank dealt rather abruptly with any proposed changes in monetary policy that would substitute "a measure of compulsion" for the traditional relationship of informal understanding or "moral suasion" between the Bank and the financial institutions in an attempt to remedy the above situation. It emphasized the utility of the existing co-operation between the bankers and the authorities:

To introduce an arbitrary standard on a compulsory basis must give the banks an incentive to rearrange their affairs so as to secure the greatest advantage that the law allowed. The virtues of informal and flexible methods of persuasion would be lost, and this would not be without influence on international opinion.

If invoking this ultimate threat of foreign confidence once was not enough, the Bank repeated the point with regard to the overseas operations of British banks.

It cannot be presumed that compulsory measures could be limited to banks whose business is primarily in the United Kingdom. The U.K. business of British and other banks operating mainly overseas is highly individual. To apply uniform methods of regulation would be difficult; might prejudice the standing and operations overseas of British banks, and might even provoke unpleasant political and monetary reactions in their main centres of operation (ibid.).

After listing the various compulsory techniques that might be invoked, the Bank rejected all with the partial exception that Special Deposits schemes were the least objectionable of the alternatives. Yet, the general approach

to compulsory measures was at the same time unequivocally negative.

None of the suggestions is free from serious drawbacks arising from the introduction of compulsion and rigidity into a banking system doing a large volume of international business. They are all likely to prejudice the close and helpful co-operation which exists between the authorities and the banking system. They all operate primarily on the business of credit-giving; and therefore do not replace instruments, such as Bank Rate, which effect also the willingness to take credit. The Bank would stress these drawbacks, and do not at present consider that an amendment to the present system is necessary or would on balance be advantageous (ibid., pp. 41-2).

The Treasury was somewhat less sanguine about the effectiveness of traditional monetary policy in the post-war era, although largely accepting its general objectives. It too noted that the expectation of government support for full employment had undercut the psychological impact of a rise in Bank rate:

In the past it was possible to create, or at least reinforce, the expectation of a general recession in trade, and increases in Bank Rate were often regarded as a signal that such recessions were imminent... It is now, however, taken for granted that the Government will do all in its power to prevent the advent of a general recession, and the experience of price movements over the past twenty years has greatly weakened the that goods may sometimes be got more cheaply by waiting. Today, therefore, restraint of capital expenditure by monetary means has to rely more on restraining people from raising money (ibid., p. 94).

Thus, the limitations of the traditional method (raising Bank rate) made it necessary to exercise direct controls on the financial sector, i.e. restrictions on capital issues, direct requests to commercial banks about the level and purposes of their advances and hire purchase controls. The experience of monetary policy had not, however, been highly encouraging in the 1950s, even with the use of direct controls (ibid., pps. 96-99). While offering no direct comment on the Bank's rejection of alternative techniques of monetary control, the Treasury did maintain that,

this control cannot in present circumstance be adequately exercised by existing techniques of monetary policy alone; and that these have to be supplemented by controls of capital issues, hire purchase controls and requests to the Banks, or a combination of all three (ibid., p. 120).

Admitting a "presumption in favour of minimum interference with the nor-

mal working of the existing system," it too rejected the introduction of additional compulsory measures but agreed with the Bank of England about the relative desirability of special deposits placed at the Bank in comparison to alternative schemes. (ibid.).

On the question of external policy the Treasury's evidence was largely again in accord with that of the Bank of England. The importance of an international role for sterling was unquestioned, and consequently the two dominant objectives of external policy were reaffirmed, namely maintaining confidence in sterling and earning an adequate balance of payments surplus to finance private capital outflow, long-term government lending and the capital repayments of government overseas debt. The stability of the sterling balances was dependent on "confidence which has to be maintained by United Kingdom policy and needs to be continually refreshed." Sterling holdings by countries outside the sterling area were even more liable to sharp fluctuations owing to loss of confidence, not to mention the internal "trading community," which could vary the "leads and lags" in the purchase and sale of goods and evade exchange controls to invest in non-sterling currencies if the exchange rate were threatened (ibid., p. 117). In consequence, with regard to monetary effects on short-term capital movements, "confidence factors" had predominated over "normal factors," i.e. had impinged upon the ability of rises in the Bank rate to influence such movements. Moreover, "The central feature of 'confidence' has been that, having regard to the limitations of our external monetary position, doubt has existed over our capacity to carry out our domestic programmes without running into inflation (ibid., p. 119)."

Representatives of the financial institutions concurred in every respect with the point of view expressed by the Bank of England. They supported the "informal and flexible" relationship with the Bank, the

reliance on traditional methods of monetary policy and the general aim of maintaining sterling's international role and opposed the use of direct controls, particularly when such methods impinged on their own field of operations, as well as any proposals for the retention or introduction of compulsory measures. Their criticisms were reserved for other aspects of government policy which undercut the efficacy of monetary instruments, namely continued finance of state expenditure through borrowing because of the commitment to full employment, the public corporations' investment policies, etc. For example the Accepting Houses Committee offered the opinion that

that part of the monetary system with which [the Accepting Houses] are concerned, namely the London Money Market, functions with admirable smoothness and efficiency and is the best of its kind in the world. It provides a sensitive mechanism with the help of which the Authorities can influence the supply of short-term loanable funds. Provided that changes in Bank Rate are suitably backed up by open market operations, any desired degree of credit restriction can be brought about (ibid., Vol. 2, p. 5).

This eulogy was, however, subject to two reservations:

In the first place the mechanism will not work if the Authorities shrink from raising rates of interest to a level appropriate to the degree of restriction desired. In the second place the market will not react in the manner which could normally be expected if Government budgetary and debt management policy results in a continuous expansion of Treasury Bill issue; this must inevitably frustrate any attempts to use normal open market techniques (ibid.).

Thus, the general position was that the monetary system and the financial institutions were performing their proper functions in the British economy; the fault lay elsewhere.

It is no good blaming the monetary system for difficulties which lie deeper. In particular it is no good blaming the system because the effective halting of inflation may be incompatible with the maintenance of a state of overfull employment, because a rate of interest high enough to eliminate comparatively unprofitable demand may also stop such socially desirable objects as house building, or because when prices in the rest of the world rise or fall simultaneous maintenance of both internal price stability and the exchange value of the currency may be impossible. No known monetary system can reconcile conflicts of this kind (ibid.).

The thrust of the evidence of the Issuing Houses Association was

largely identical. Given the experience of and government commitment to full employment, the ability to restrict the supply of new issues was very limited. The expectation of continued inflation had negated the impact of higher interest rates, and the government not been either able or willing to ration credit by means of comprehensive directives, which the Association opposed in any case. Thus,

Since in our view the attempts at piecemeal rationing of credit by means of Letters of Guidance to the Capital Issues Committee have so far proved ineffective, and since we hold that a comprehensive use of directives to control the flow of credit would prove stultifying and moreover impracticable, it follows that reliance must be placed in the main on the use of interest rates as a means of rationing credit (ibid., p. 44).

For this programme to succeed the government would have to control its budgetary and financial policy as well as the borrowing requirements of the public corporations in order to eliminate inflation. In the interim before such measures would take their full effect, the Association supported the continuation of the Capital Issues Committee for as long as the demand for fresh capital outran its supply. However, it proposed certain constitutional changes for the Committee which would ensure its greater authority and autonomy from government control. These included streamlining and simplifying the procedure for application, the establishment of general guidelines setting out investment priorities, the inclusion on the Committee of "someone who is fully conversant with the technical problems of Capital Issues and Issuing Houses," preferably "a leading partner of one of the eminent firms of City solicitors or accountants," and the selection of a Chairman "of an ability and standing in the financial world which would give great weight to his views on the agreed instructions," namely a Chairman of one of the joint-stock banks (ibid., p. 47, see also pps. 42-48).

The Committee of London Clearing Bankers echoed many of the same points. Any inadequacies of monetary control over the past few years

were due "not to any defect in the mechanism but to the fact that the machine has been overloaded (ibid., p. 51)." The financial system was deemed sufficient in meeting any and all requirements for the finance of British industry. Compulsory controls and directives were opposed as both inflexible and undesirable.

In our view, both restrictions on lending at Government request and the consequent diminution of competition among the banks in the lending sphere are undesirable expedients which were resorted to on a temporary basis but which have gone on too long for the good of the economy. We consider that both should be abandoned as soon as practicable. However, if monetary measures need reinforcement and if it is necessary for bank lending to be artificially restricted at any time, we consider that this is better accomplished informally than by legislation (ibid., p. 59).

Similarly, the preferred option of indirect influence through Bank rate changes could only be effective if budgetary deficits were curtailed.

There is no doubt in our minds that the high level of expenditure which has been maintained by Government, Local Government and the Nationalised Industries in recent years is at the root of our trouble and this is not capable of being restrained by those measures relating to the cost and volume of credit with which the banks are mainly concerned (ibid., p. 61, see also pps. 49-61).

The submissions by industrial representatives were substantially more critical, although in general they too agreed with the overall policy objectives, especially the importance of maintaining an international role for sterling, the informal relationship between capital and the state and the need for tighter budgetary control and reduced taxation. It was in particular the organizations representing smaller firms that displayed the greatest doubts regarding monetary policy, as they had been more seriously affected by the credit squeeze than larger self-financing firms. The evidence offered by the FBI was the most completely in line with orthodox financial opinion, as it was at this point (November, 1957) still under the spell of the excess demand model of British economic difficulties. The heavy hand of Arthur Shenfield was clearly behind the analysis of the Federation offered to the Committee, as indicated by the

references to the pamphlet, Britain's Economic Problems and Policies, as in effect supplementary evidence, not to mention his place as part of the witness team sent to give verbal evidence. Consequently, the memorandum was more or less a repetition of the arguments of that earlier document. The effects of monetary policy at least before the September measures was judged to be minimal. Only hire purchase controls and the purchase tax were seen as potent, but these had to be large to be effective and consequently had "damaging long-term consequences for the industries concerned (ibid., p. 115)."

Raising interest rates was likewise deemed appropriate in the battle against inflation. Indeed, they agreed that this weapon "must be used with greater vigour than it was before September, 1957," if excess demand and inflation would ever be eliminated (ibid., p. 115). The real culprits were the method of funding and volume of public expenditure and the investment policies of the nationalized industries. The only answer was the tougher monetary policy, a reduced reliance on budgetary planning and cutting government expenditure "down at the root." The FBI expressed its faith in the adequacy of financial institutions, even in bridging the "MacMillan gap" of medium and long-term finance for smaller firms, although it did note that,

No corporate institution exists at present with the specified purpose of undertaking the obviously much more hazardous business of financing new and untried schemes: and the question of whether such a corporation would be in the public interest remains unanswered (ibid., p. 117).

Yet, such an institution, it felt, should be left to the initiative of the private sector, and no suggestion was made for the creation of a publicly funded investment bank (see also pp. 114-128).

The British Employers' Confederation, industry's other peak association, concurred with the viewpoint that the problem was "overfull employment" and thus with the remedy of reduced budget deficits and lower

taxation. However, it attacked the policy of credit restriction as "a blind instrument hitting both the just and the unjust," which moreover had "no effect upon such of the larger companies as are still in possession of surplus funds and need not go to the banks, nor for that matter to the Capital Issues Committee (ibid., p. 109)." The Association of British Chambers of Commerce echoed these sentiments with regard to the effects and injustices of government policy. In addition it felt that financial institutions still had not closed the "MacMillan gap" in industrial finance. In particular it held that

there is scope for providing additional facilities for medium and long-term finance. The existing facilities for the financing of capital projects available through the Industrial and Commercial Finance Corporation, Ltd., and the Finance Corporation for Industry, Ltd., are felt to be inadequate on occasion, due to the fact that their policy is in effect that of a "super-bank."

The City's answer to the problem of industrial finance was insufficient in other words because of the limited funds available to the above institutions, and consequently the ABCC also saw the need for some expanded source of risk capital to fill the place left by the demise of the individual entrepreneur, especially in the case of small business (ibid., p. 86).

The Engineering Industries Association similarly observed that the credit squeeze had affected its constituent members, especially the smaller firms. Since many engineering companies had to rely on overdraft facilities to finance capital projects, despite the avowed policy of the clearing banks, "The continued and unpredictable imposition of such restrictions is therefore harmful: it is extremely difficult for businesses to make long-term plans when monetary policies change so frequently (ibid., p. 110)." Such frustrations were particularly acute for smaller firms, especially in the case of directives to restrict bank advances and hire purchase controls. The EIA also saw a need for some new institution to

fill the need for long-term finance for smaller firms and proposed either the establishment of industrial banks on the Continental model or the expansion of the facilities of local finance corporations (ibid., p. 112).

One area of the financial system which was judged inadequate by virtually every section of British capital including the financial institutions was the provision of credit for long-term capital projects abroad. Proposals to deal with this situation varied considerably, however. Sections of industrial capital supported the establishment of an Export-Import Bank on the American model (the ABCC, the Export Group for the Constructional Industries and the British Engineers' Association). Such a proposal had already been rejected by the Bank of England in early 1956, and the Accepting Houses Committee had appointed a subcommittee to investigate the provision of this type of credit. The position of the latter was that it was not a question of funding a new institution but rather one of altering the policy of the Export Credits Guarantee Department in order to extend state guarantees to capital projects of up to fifteen years. Given the extension of such guarantees the Committee was willing to countenance at least the consideration of an Exim Bank, as such institutions had already proved successful in other advanced capitalist countries, especially the United States (ibid., pps. 7-9). This position was also supported by the Committee of London Clearing Bankers (ibid., p. 60) and the FBI (ibid., pps. 127-8). The exact opinion of the latter was that the preferred option was a better co-ordination of policy among existing institutions. However, it held that some initiative was needed if British capital exporters were to match the competition of state-sponsored projects from the socialist block as well as the activities of American and Japanese Exim Banks. and that a special institution would be necessary if other means could

not be found.

Lastly, the submission of the TUC was more explicitly critical of the overall framework of monetary policy, a position which followed directly from its understandable view that "the first and foremost aim of economic policy should be the maintenance of full employment." Repeating the usual criticisms of the ineffectiveness of monetary policy on influencing either the balance of payments or internal demand, the TUC objected to the "air of mystery that still surrounds the operation of monetary policy and the part played in it by the Bank (ibid., p. 145)." More particularly it noted that the real significance of recent measures was that the government was no longer "giving priority to full employment and expansion," and that in any case the effects of monetary measures were likely to be contradictory as interest rate rises aggravated budgetary problems by increasing the cost of the national debt and the external situation through effects on the interest payments due on the sterling balances (ibid., p. 146). Consequently, the TUC advocated a two-pronged programme to secure a growth-oriented framework for economic policy. On the one hand it wanted a greater emphasis placed on direct controls over finance to enforce monetary measures (compulsory liquidity ratios and/or the revival of the war-time system of Treasury Deposit Receipts to finance short-term government borrowing without raising the banks' liquidity ratios). On the other hand it repeated the call for a National Investment Board, proposed earlier in both the TUC's evidence to the MacMillan Committee and its report on reconstruction, although in this case it requested that the Board have only advisory powers. Such a body would take responsibility for looking at the longer-term programme for economic policy, "for reviewing and co-ordinating all forms of capital expenditure" to ensure balanced growth and the continuation of full employment (ibid., p. 149). Yet, at the same time the TUC's evidence was remarkably con-

ciliatory with regard to City institutions. Noting the reorientation of the merchant banks and issuing houses away from overseas projects and towards domestic industry, as well as the activities of the institutional investors and clearing banks, it felt that the gaps in industrial finance discovered by the MacMillan Committee had been "largely filled" in the intervening decades, a perspective which small capital, of course, did not seem to share (*ibid.*, pps. 149-150).

The publication of the Radcliffe Report in August, 1959, added an official voice to those that were beginning to doubt the efficacy of Tory economic policies. While cautious in tone and hardly radical in its recommendations, particularly in comparison to the MacMillan Report several decades previously, the Radcliffe Report did at least clear away some of the mysticism surrounding the Bank of England's favoured instrument of monetary policy. In particular it cast doubt on the effects of changes in interest rates on the level of demand, and thus on the ability to improve the balance of payments position in this manner. In addition movements in the Bank rate no longer had an appreciable effect on short-term capital movements as traditionally supposed: "a jump in short-term rates seems on past evidence to have lost much of its power to effect any real immediate improvement in Britain's international balance sheet (Committee on the Working of the Monetary System, Report, para. 439)." None the less the Report accepted the point of view of the Bank and the Treasury that however ineffective in real terms, "The rise in Bank Rate is symbolical: it is evidence that the United Kingdom authorities have the determination to take unpleasant steps to check inflation." Thus, movements in the Bank rate might have a psychological effect on foreign confidence based on the traditions of the Bank of England, i.e. as evidence of who was in command, but the Committee doubted that "such veneration for Bank Rate can persist if there develops a general scepticism of

the power of interest rates over the internal economic situation (ibid., para. 441)." The really quick effects of monetary policy were secured through the use of hire purchase controls and cuts in public investment, but these had the result that, "The light engineering industries have been frustrated in their planning, and the public corporations have had almost equally disheartening experience (ibid., para. 472)." The squeeze on bank credit in 1955-56 had probably had a considerable if slower impact in the sense of a "diffused difficulty of borrowing," but these measures if less discriminatory had had the defect of leaving large sections of the economy unaffected.

The monetary instruments employed left untouched the large industrial corporations that control more than half the investment in manufacturing industry; and neither their planning nor that of the public corporations appears to have responded seriously to changes in interest rates (ibid.).

Thus, only those areas which could be directly hit by administrative decisions had been strongly affected by the attempts to restrict credit, and here the actions had been discriminatory and abrupt.

It is far removed from the smooth and widespread adjustment sometimes claimed as the virtue of monetary action; this is no gentle hand on the steering wheel that keeps a well-driven car in its right place on the road (ibid.).

With regard to relations between the Bank of England and the government the Report was equally cautious but implicitly critical of some of the more grandiose aims of financial spokesmen. While agnostic on the question of whether nationalization had made any changes in the respective roles of the Bank and the Treasury, it noted that "the power to direct [the Bank] has never been employed (para. 766)." Moreover, "the affairs of the Bank" included only a part of the measures that influenced the monetary system, and thus,

effectively to plan and implement the monetary policy of the country as a whole requires a constant co-operation, strategic and tactical, between the central bank on the one hand and those responsible for alternative or supplementary monetary measures, especially the Treasury or the Board of Trade, on the other. More

than that, monetary policy...cannot be envisaged as a form of economic strategy which pursues its own independent objectives [my italics] (para. 767).

Likewise, the Committee felt that the role of the Bank ought to be that of "executant" of government policy and explicitly disassociated itself from the view that a central bank should be independent of political influence. This position was invalid because,

it either contemplates two separate and independent agencies of government of which each is capable of initiating and pursuing its own conception of what economic policy requires or else assumes that the true objective of a central bank is one single and unvarying purpose, the stability of the currency and the exchanges (paras. 768-9).

Finally, the Committee noted various gaps in the credit market, in particular long-term finance for capital exports and medium-term credit for small firms, although here too the recommendations were rather minimal. With regard to the former the Committee criticized the stance of the Export Credits Guarantee Department that five years represented "the horizon of insurable risk" for the provision of state guarantees for export credit. Having a virtual monopoly in the field and as a government department the ECGD had to take a wider view than that of a "commercial credit insurer:" "The maximum period of cover cannot in fact be determined in advance by reference to some general principle of credit insurance; it has to be related to the domestic and international economic situation at the time (paras. 887-891)." Given an extension of the time length of such guarantees the Committee did not specifically recommend the founding of a new institution but felt that such an Export Finance Corporation, funded either publicly or privately, might be necessary if existing financial institutions failed to meet the demand, i.e. it simply restated the position of the financial sector on the matter (paras. 893-898). On the question of long-term loans and the provision of risk capital for small industry the Committee held that the "MacMillan

"gap" had been at least partially filled by the changed practices of the financial sector and the development of new institutions. Rather than recommending the establishment of a new corporation to cater to the long-term loan needs of small business, the Committee proposed that such a gap could be met through the slightly altered practice of the joint-stock banks as well as by raising the limit on investments by the ICFC. The problem of the risk involved in new commercial or technical developments by small businesses could be overcome through the creation of a state-backed Industrial Guarantee Corporation, which would limit the losses financial institutions might incur by backing such ventures (paras. 932-952).

By 1960 the use of Keynesian demand management to iron out the trade cycle and maintain full employment within the constraints of the neo-liberal political economy had hardly provided grounds for enthusiastic support. Critical discussion beginning with the Radcliffe Report on the monetary system focussed increasingly on the poor performance of the British economy and the extent to which this seemed to be the result of state activities rather than defects intrinsic to the economic structure. Indeed, the two periods in which demand had expanded faster than productive capacity, 1952-55 and 1958-60, as well as the two recessions, 1952 and 1956-58, appeared to be largely the result of the stop-go measures taken by successive Tory governments. The most famous survey of the period came to the conclusion that "the major variations of fiscal policy were in fact not stabilizing, but rather themselves one of the major causes of instability; and that demand would have remained much more nearly in balance with supply if fiscal policy had, throughout the whole period, been less actively interventionist (Dow, 1970, p.211)." For all its fine tuning it seemed that the steered economy might have done better without a driver.

One reason for the desultory performance of economic policy was technical, the lack of adequate information about the economy. Official forecasts used in aid of budgetary decisions were essentially short term, referring to the future financial year alone. Yet, even these were as often in error as not, sometimes leading to negative consequences when translated into policy. Under the Labour governments of the 1940s forecasts of government expenditure were off on average by £100m while estimates of GNP missed by some £200-300m, roughly one-third of the actual increase. Under the Tories the forecasters demonstrated particular weakness in their inability to predict the large increases in imports that took place during the years of expansion. The average annual error as regards imports and GNP during the 1950s were in the area of £125m and £150m, respectively, although the general direction of the economy was usually correctly foreseen. There were, consequently, three occasions when technical inadequacy may have affected government policy, the failure to observe the stock recession in 1952 and the underestimation of the growth of demand in 1954 and 1959. However, on balance these errors were not that significant as a source of the malfunctioning of economic policy (Dow, 1970, pps.132-43).

The central reason behind the stop-go economics of the 1950s was the fact that policy was subordinated to short-term considerations which in turn were dictated by political-economic factors. Brittan has caricatured the Chancellors of the period as "Pavlovian dogs responding to two main stimuli: one was 'a run on the reserves' and the other was '500,000 unemployed (Brittain, 1971, p. 455)." While there is certainly considerable truth in this observation, it missed out one key feature of the political-economic situation. Budgetary stimulus was indeed applied when unemployment breached unacceptable levels, particularly if an election was in the offing. The commitment to full employment may be

a necessary price for the continuation of a democratic regime in advanced capitalist society, not to mention the economic and social effects of any alternative course. The same cannot be said about the other limit on economic policy, the exposure of sterling to crises of confidence as part of a deliberate and unnecessary programme of restoring sterling and London to their previous international positions in behalf of City interests. While this programme accorded well with both the neo-liberal ideology dominant in the Conservative Party at the time and the interests of financial capital, it was a key factor behind the "political business cycles" of that decade and in that sense hardly functional to either balanced economic growth or the general interests of British capital.

The end result of economic policy based on short-term considerations and subject to the effective veto of world finance was a particular pattern of events that became known as a low growth syndrome. Restrictionist policies hit investment strategies in particular, especially those of the public sector, the consumer goods industries and small industry in general through, 1. cuts in public investment, especially in the nationalized industries, 2. measures designed to curtail private investment, i.e. higher interest rates, credit restriction, direct controls and cuts in investment allowances, and 3. the indirect effects of lowering business expectations induced by the stop-go pattern of economic policy. The lower level of investment and sluggish growth of productive capacity thus generated at least in part by government policy in turn contributed to the low rate of increase in productivity and the slow growth of the national economy, reducing the cost competitiveness of British goods and laying the groundwork for future balance of payments problems that would be far more serious than those of the 1950s, in turn requiring deflationary measures of ever greater severity (Pollard, 1969, pp. 442-449).

By the end of the decade industrial capital was becoming increasingly disillusioned with the progress of a decontrolled economy. The neo-corporatists who had laid dormant for most of the period emerged once again to lead the initiative for some form of "democratic" or, as it was now termed with due regard to post-war continental experience, indicative planning. While somewhat differently packaged the new programme was in most respects no more than the revival of the policies and institutions of the Attlee government which had been blocked by industry's non-co-operation in the first place. While it is hardly surprising that industrialists could think of no new solution to the problems of the British economy, what is less excusable is the way some of the industrial leaders who had been at the forefront of the "dash for freedom" could turn and blame the government for following the policies they had advocated, indeed immediately following a period when they had been constantly pleading for another lash of the deflationary whip. The memoires of the FBI's Director-General, Sir Norman Kipping, can only be read as somewhat hypocritical:

So throughout 1955-7 we groped our way again and again through crises. Our reaction to plateaux, pauses, freezes and squeezes was that they might on occasion by a means to an end, but they were not a policy or an end in themselves. The fact is that we were out of touch with economic policy-making, and the government was out of touch with us. For outside advice it relied mainly on private consultation with men of its own choosing, more of whom, I suspect, were men of the City than of industry. As tools of economic management, the government relied on orthodox fiscal and monetary measures (Kipping, p. 90).

While all this is perfectly true, especially the leading role of finance in the determination of economic priorities, it is equally true that both the hands off relationship with the government and the use of orthodox methods of economic regulation were applauded by the leading industrial organizations. They did not challenge the rise of the financial power bloc, indeed they more or less paved the way. One looks in

vain for any critical comments from industrial spokesmen on the international role of sterling, the return to convertibility, the main policy objective of raising a surplus on the current account on order to pay for foreign investment, or the growing reliance on deflationary economic policies, for industrialists were firmly in support of all of these goals and methods throughout the decade of the fifties. Similarly, the FBI was one of the major forces demanding the destabilising budget of 1958. Any consequent mutterings about the effects of stop-go policies and industrial stagantion must be seen in this light. If the Conservatives had actually followed the course advocated by the Federation, the resulting situation would have been that much worse for British industry. As in the inter-war era the industrial challenge focussed much more on the effects rather than the structural basis of British decline, and the alternative framework for economic policy could only be a somewhat superficial call for a return to planning, i.e. the resurrection of more formal ties to the policy-making apparatus of the state.

The renewed interest in planning received a further impetus from the growing concern over the emergence of the EEC and the question of whether or not to join it. On the one hand the greater success of the European economies offered an obvious contrast to British performance, so naturally enough there was consideration of whether this was due to different methods of formulating economic policy. In addition any governmental initiative on entering a European trade bloc required close consultation with industrial interests as the Rome Treaty impinged on virtually every aspect of commercial policy. British industry was somewhat chary of the whole affair, since entering the EEC would have entailed abandoning their central international strategy for the past half century, namely the exploitation of the imperial framework. Consequently, the FBI had shown little interest during the early stages of the forma-

tion of the EEC and only became concerned when the inadequacies of British performance became painfully obvious in 1959-61. A joint report by the FBI, NUM and ABCC completed in August, 1957, indicated the extent to which industrial capital was still wedded at that date to the existing arrangements. This report laid down various preconditions for British entry into a free trade area which were totally incompatible with EEC membership, i.e. that such arrangements should not conflict with the continuing imperial preference network, that Britain should retain its own external tariff and that food, feeding stuffs, drink and tobacco should be excluded from any agreement. The prevailing suspicion of state intervention was emphasized in the final paragraph of the report:

We do not relish supra-national institutions of the ECSC or EEC type nor the 'dirigiste' tendencies that go with them; and we do not believe that opinion in the U.K. would be prepared to surrender our freedom of action to anything like the extent envisaged by the Six in the Treaty of Rome (cited in Blank, 1973, p. 145).

The parties to the Treaty could not accept such proposals as a basis for discussion, as those finally put forward by the MacMillan government were virtually identical, and the end result was the formation of two rival trade blocs. This situation was very much against the wishes of British industry but the only possibility given the unwillingness to surrender key policy powers or the system of imperial preference. However, the continuing decline of the proportion of British trade with the sterling area coupled with the growth of trade with advanced capitalist countries forced a reconsideration of the issue within a few years. Despite the protectionist system operating under the aegis of the sterling arrangements, British industry found its traditional satellites increasingly penetrated by foreign powers and its growth markets outside of what was left of the imperial system. While it took another decade for the final demise of the sterling area, the changing pattern of trade

made entry into the EEC an inevitable concern. In the meantime those industrialists looking over their shoulder at the emerging continental system could only notice the apparent ability of those countries to avoid the stop-go policies that seemed to plague Britain and began to wonder if this had something to do with the quasi-corporatist arrangements that British industry had shunned for the past decade.

The triumph of neo-liberalism was never total even in the 1950s, and in certain industries corporatist arrangements remained the rule. These cases were isolated instances of a discredited approach, but they did serve as the germs of an alternative programme when industry's love affair with the open market came to a rather abrupt end. The cotton industry offered one example, plagued as usual with competition from cheap imports from the underdeveloped countries of the Commonwealth. The Conservatives stood firm against any notion of tariffs or import controls that would threaten their free trade commitments or the remnants of the imperial system, but they did offer state assistance through the Cotton Industry Act of 1959. This closely paralleled previous attempts at restructuring the by then moribund textile industry. The state provided two-thirds of the cost of scrapping redundant plant while the remaining one-third was raised by a compulsory loan on the affected firms. Providing that the companies complied with the requisite standards on closure, the state then offered a further 2% toward modernization and re-equipment, all subject to various time limits. The whole scheme was administered through the Cotton Board, one of the two statutory development councils left from the 1947 act, operating under the Board of Trade, and the total cost of the operation was estimated at £30m (Henderson, 1962, pps. 350-1).

More significantly for later developments was the case of iron

and steel since this was neither a declining nor a peripheral industry. Denationalization had not meant the end of state intervention in the industry as the Iron and Steel Act of 1953 provided for a statutory, government appointed regulatory agency, the Iron and Steel Board. The Board had supervisory powers over the industry which paradoxically were more substantial than those of the various state departments over the public corporations. Among its specific powers the Board could 1. set maximum prices, 2. review and reject schemes for expanding productive capacity, 3. consult and report to the responsible ministers on the adequacy of forward plans for the industry, 4. make arrangements for securing the necessary imports and 5. collect information. While its powers were quite extensive, its freedom from actual political control was virtually complete. Moreover, it did not act simply as a restrictive cartel but attempted to plan for future expansion on the basis of estimates of growth of demand and capacity to ensure the co-ordination of the two. The arrangement for iron and steel was thus the most purely corporatist of the decade, but it was adapted to the economics of expansion rather than contraction and thus offered a more adequate model for state planning in a growing capitalist economy. Moreover, the insulation of the Iron and Steel Board from political interference allowed it to develop forward investment plans based on five-year projections in contrast to the nationalized industries whose programmes were invariably disrupted by the exigencies of macro-economic policy. In practice the Board did little to promote the rationalization or modernization of the industry, and the problems of low profitability and the small size of many firms returned with a vengeance in the 1960s. However, at the time of industry's disillusionment with neo-liberalism in 1960 the experience of the Iron and Steel Board offered at least one practicable answer to the difficulty of finding the "middle way" between laissez-faire capitalism and state social-

ism (ibid., pps.354-360 and McEachern, 1980, ch.7).

One final current entered the growing stream of criticism of Tory policies in the late 1950s, and that concerned the question of "Treasury control" of public expenditure. "Treasury control" signified that policies aimed at steering the economy in the areas of both taxation and expenditure were arrived at primarily through bureaucratic modes of procedure within the state administration. By means of a process of bargaining between the Treasury and the various departments of the Civil Service, utilizing the short-term projections provided by Treasury economists and statisticians, the government's priorities were asserted in specific spending and taxation proposals. There is inevitably a mix of procedures behind any set of government policies, but using the typology set out above, I have designated three main types, bureaucratic, purposive-rational (technocratic) and consensual (see Ch. 1, & Offe, 1975). In the post-war period the re-establishment of Treasury control ensured the continuation of a primarily bureaucratic mode of procedure within the given political economic framework. As described earlier bureaucratic processes are oriented primarily towards inputs, i.e. politically set ends, and utilize the traditional resources of the state, taxation and expenditure policies, to meet the objectives determined in the process of bargaining between the administration and the government. In the case of Britain the political weight of the Treasury and the banking interests enforced through the Bank of England the dominance of the short-term interests of the City over other considerations.

The basis of Treasury control lay in its traditional power to turn down the programmes of the spending departments, i.e. a negative control evolved during the Gladsonian era of balanced budgets and a low government profile. In a Civil Service famous for its corporate organization, Treasury influence was and is exerted through constant bargaining between

the different administrative units of this tight social network.

The self-enclosed exclusiveness of Whitehall and the fact that governmental policies largely originated from within its ranks necessitates some kind of compromise between the various departments allowing in turn a degree of room for the assertion of political priorities through the Cabinet. However, this need for agreement extends to the Cabinet as well, where the Chancellor of the Exchequer has had a unique power in comparison to other advanced capitalist polities in determining both policy areas of expenditure and taxation. To cite one American admirer of the British administrative system, "[This power] means that the tendency to agreement produces not simply compromises but decisions shaped around the Treasury view (Beer, 1957, p. 124)."

If this procedure was admirably shaped for the implementation of political ends, so long as these were concurrent with the dominant "Treasury view," it proved destabilizing when the ends themselves were subordinated to short-term considerations like sterling crises. The budget offered at least the potential of fulfilling a programme of counter-cyclical Keynesian management primarily through changes in fiscal policy, even if it failed in this task. However, as regards the whole array of state expenditures, Treasury control proved a pretty crude and dysfunctional instrument. To note once again Beer's relatively early perception of the problem,

So complicated a problem as the effects of state expenditure would seem to call for a high degree of system: a system of thought, such as that provided by the 'input-output' approach to economic analysis, which would enable planners to evaluate accurately all factors in the economy and the bearing of government activity upon them; and a system of procedure in administration which would ensure that the vast multitude of government decisions would actually be guided by the conclusions of such analysis (ibid., p. 95).

However, the process of bureaucratic decision-making allowing for changes only at the margins of expenditure policies ruled out any "degree of sys-

tem which was incompatible with the short-term management of macro-economic policy.

By the 1960s Treasury control of economic policy had come under attack, primarily because of the apparent failure of this mode of administrative procedure to achieve a satisfactory rate of economic expansion. An additional, interrelated incapacity arose from the state's involvement in certain areas of production itself. While state expenditure as a whole is not oriented towards the production of goods and services, significant portions of it are, and these must be governed by criteria appropriate to the particular area of production. When the government is involved in projects that take several years to complete, such as the investment plans of the public corporations, capital programmes in the social services and education of trained staffs, decisions about expenditure on those projects cannot simply be budgeted on a yearly basis subject to the buffeting of Treasury economizing without dislocation and frustration. Moreover, there was the concern within the Treasury itself over its apparent inability to control the growth of public expenditure or to make sizeable reductions in the latter during periods of deflation. While originating from the Treasury's own concern about its lack of control over public spending and thus limited in its criticisms by its status as an internal document, the report of the Plowden Committee (under the Chairmanship of the former Chief Planning Officer, Lord Plowden) gave official recognition to the problem of reconciling traditional methods of procedure with the extended role of the state:

In our judgement, the social, political and economic changes of the last twenty years have created a new situation. First, the scale of public expenditure is far greater...Second, public expenditure has become more complex including, as it does, the cost of the most advanced technological projects and of scientific research; the financing of commercial risks that the private

sector cannot take; aid of many different kinds to a variety of underdeveloped countries; and social insurance schemes of unprecedented scope. All of these activities involve commitments, contractual or moral, extending several years ahead. Third, there has taken place a great change in economic thought; the Keynesian revolution in the role of public finance and its relationship to the national economy as a whole. The Budget is seen, not as a simple balancing of tax receipts against expenditure, but as a sophisticated process in which the instruments of taxation and expenditure are used to influence the course of the economy (Plowden Committee, p. 6).

The Plowden report went on to observe that "the traditional system of decision-making can no longer be effective in containing the growth of expenditure within whatever limit the government have set (ibid.)." It then recommended a reconstruction of the system of central government procedure, including as its core proposal the "development and use by Government of long-term surveys of expenditure and resources (ibid.)." While the report amounted to little more than a revival of the techniques introduced under the Attlee government, it did indicate quite vividly a point of contradiction in the expanded role of the state in the advanced capitalist economy. First, there exist a whole range of services, usually the provision of cheap inputs into the private production system of a social nature, the expenditure on which cannot be varied radically from year to year without incurring a great deal of waste. Their particular budgets must be programmed over a future time span, just as the investment plans of large, capital intensive firms must be planned on more than a financial year basis. The traditional Treasury system, ""ad hocery" gone mad, in which annual bargaining over the entire range of public expenditure was subordinated to the more pressing problems of short-term economic management, was inimicable to these considerations. Secondly, even apart from the particular projects of the state in support of the private process of accumulation, the socialization of externalities, and the conflict of functions thereby confronting the decision-making process, the general effect of stop-go, i.e. the policy ends to which

all else had been sacrificed, was increasingly perceived as in itself a drag on the national economy. Not only had the Treasury created a whole variety of particular wastes for those involved in state-sponsored activities, but the ends to which these policies were directed were seen as actually disrupting the process of accumulation. I will distinguish the first set of problems from the second as those of administrative planning as against those of economic planning. While inter-related the two areas are analytically separable, and my concern here is primarily with the latter.

The Plowden report was thus not just the official recognition of the problems of administrative planning and the inadequacy of the traditional methods for controlling public expenditure. It was also another signpost on the road away from a purely bureaucratic mode of procedure and towards one that may be termed technocratic. The extended network of relations between the state and the private economy had created at least the rationale for orienting economic policy more towards outputs, that is specific economic requirements, and away from inputs, or the politically determined ends of specific economic interests or class fractions as filtered through the various bureaucratic agencies.

The formation of economic policy in the 1950s had been circumscribed by two major political forces. On the one hand financial interests through their relationship with the Bank of England had managed to make their particular concerns the focus of the government's economic strategy. On the other hand labour had extracted a commitment to the welfare state, full employment and increasing incomes from Conservative as well as Labour governments. The political domination of City interests threatened the long-term viability of British capitalism, while full employment limited the range of options open to successive governments. The latter barrier was only assaulted over ten years later once the former had proved

too formidable. However, at the beginning of the 1960s, after a decade of Conservative rule, the City cast a much longer shadow over the political landscape than organized labour, and any perceptive observer might have thought that it would be this venerable institution that would be the first to give way before a state initiative. One such observer, Thomas (now Lord) Balogh, Labour economist and advisor to Harold Wilson, indicated what particular section of capital was likely to come under attack in a planning initiative:

What the Treasury officials never seemed to grasp was the fact that the restrictions which seemed to them necessary to maintain 'freedom' (that is, freedom of the financial interests sponsored by the Bank of England) were bound to weaken the competitive position of the economy. Each time investment was cut, demand fell and imports dropped off; and productivity also suffered. The pound could be saved, but only at the price of weakening Britain against her competitors and setting the scene for yet another crisis once the immediate pressure was relieved (Balogh, 1965, p. 60).

The attempt to move towards a more technocratic mode of procedure, linking economic policies with the requirements of the accumulation process taken as a whole, as interpreted by a planning staff not under the direction of any one fraction of capital, or at least more closely linked with industrial rather than financial interests, implied a greater degree of autonomy of the state system from the class structure or at minimum a political break with City domination. National economic planning, even in the indicative mould, required the formation of an actual planning staff with the power to collect the necessary information and the necessary administrative innovation to provide functional representation for the interests of industry, in order to formulate policies in line with the requirements of the capitalist economy taken as a whole rather than those dictated by the politically dominant fraction. This conflict runs through the next decade like the silver thread in a pound note, clearly visible beneath the cluttered surface of crises and policy

reversals. The City, having made itself indispensable in the short-run through its ability to draw in international finance and shore up the reserves during a crisis, often with very liquid money, imposed very rigid limits on the manoeuvrability of the various governments, limits which were evident to many of the political actors and against which various strategies were articulated but never carried through successfully. This contraposition of the particular versus the general interests of capital, the domination of the state by financial interests as against the need on the part of industry for alternative policies and the political subordination of a bureaucratic apparatus against the need for an output-oriented system-stabilizing administration, these were the expressions of a tension anchored in the process of production but structured by a particular national form of capitalist social relations, involving both an unusually sharp distinction between financial and industrial capital and the long-standing subordination of the latter to the former. A conflict which had laid dormant for some years returned to the politics of economic policy in the 1960s.

CHAPTER SIX

Indicative Planning and Voluntaristic Corporatism:

The Industrial Initiative, 1960-64

National economic planning in capitalist societies is typically associated with the political programmes of social democratic governments despite the fact that its most successful example was instituted in France under a series of conservative administrations. In Britain as well the planning revival occurred under a Tory government in the early 1960s. The particular conjuncture that generated the renewed interest in planning, as described in the previous chapter, can be summarized as follows. First, there was a general recognition that Britain was lagging behind her major competitors, as most generally expressed in the relatively slow rate of growth and the declining share of world trade. Second, while the immediate source of decline was the low rate of investment and slow growth of productivity, government economic policy was seen as having a serious deleterious effect through the stop-go, low-growth syndrome. Third, as the conflict between macro-economic objectives, especially full employment and high growth on the one hand and steady prices and a balance of payments surplus on the other, was irresolvable within the existing context, such that policy had to swing towards one or the other set of priorities but could not pursue both simultaneously, the only possibility of harmonization lay in the creation of a new political-economic framework. It seemed possible, that is, that if the economy could be reoriented, persuaded or cajoled towards a higher rate of economic growth, British capital would become more competitive, eliminating the balance of payments problem, and workers would prove more willing

to accept pay settlements in line with the higher rate of growth of productivity. Finally, there were a range of secondary issues which, while not immediately pertaining to the question of growth, dovetailed into the planning initiative, e.g., the discrediting of monetary policy as a result of the Radcliffe Report, the concern over the planning and control of public expenditure expressed in the Plowden Report, the new interest in and ultimate attempt to join the European Community, and, lastly but, as we shall see, in the end most significantly, the revival of incomes policy as a key aspect of economic policy.

Indicative planning in essence was seen as the means to raise the growth rate without entailing a vast extension of compulsory state controls or nationalization, and as such it appeared the ideal prescription from the points of view of both industrial capital and the government for the British sickness. For the "dash for planning" heralded a rapprochement between industry and the Conservatives, as it was from the beginning a project of industrial capital to which the government responded favourably despite the doubts and opposition within its ranks and from sections of the economic policy establishment. Although ultimately a failure, the planning initiative represented a substantial shift in the priorities of both the state and industry, back towards the old dream of a producers' alliance on the basis of a high-wage, high-growth economy, a restatement of the Keynesian programme first expressed in the Mond-Turner talks of the 1920s, redefined in the period of reconstruction but largely forgotten in the heady days of the early 1950s when economic liberalism seemed the only alternative to the gradual displacement of capitalism by state socialism. Indicative planning in other words offered the formula that had eluded the Attlee government in the period after 1947. The machinery of planning as it evolved in the 1960s was hardly different in any respect to that proposed by Labour and vetoed by industry's obstruction in that

first post-war government. What was new in the 1960s was the reversal of industrial attitudes, for industrial capital, far from impeding or reluctantly complying, actually spearheaded the planning offensive.

The first hints of the changing mood within the ranks of industry came with the formation of a private dining club of industrialists and economists in early 1960 to discuss a variety of topics relating to economic growth. Hugh Weeks, the chairman of the FBI's Economic Policy Committee and a former member of the Industrial and Commercial Finance Corporation set up by City institutions during the Attlee government, was the *eminence grise* of the club. While kept as a private affair and quite separate from the FBI at his insistence, these gatherings cleared the road for the much more public debate at Brighton at the end of the year (Brittan, 1971, p. 241 and Leruez, p. 85).

In the meantime within the FBI itself discussion intensified on the general themes of economic policy, stimulated primarily by the concern with inflation and the possibility of promoting some form of voluntary prices and incomes policy. Following the "September measures" of 1957 some industrialists, realizing the consequences of prolonged deflation, began to feel out the alternatives to the orthodox approach. Lord Chandos, then President of the Institute of Directors, proposed a system of longer-term wage contracts including guaranteed increments, while Sir Hugh Beaver, the FBI President, in the course of discussions with the Cohen Council, revived the notion of voluntary price restraint. These initiatives, and a subsequent one along the same lines by the Chancellor, Amory, in late 1959 were, however, blocked by opposition within the Federation, and its official policy remained that as expressed in the submissions to the Radcliffe Committee (Blank, 1973, p. 151).

Yet, the Third Report of the Cohen Council, published in July, 1959, again raised the topic of prices and incomes policy in contrast to the

orthodox liberal position expressed in the first two reports. The Third Report questioned openly the earlier approach of the Council that curtailing demand was the key to economic policy and offered instead a survey of alternative proposals for acting directly on wage and price increases. In particular it raised the notion of "a national conference representing the trade unions, employers' associations, the boards of the nationalised industries and probably also the government, as being responsible for national economic policy (para. 128)." It likewise broached the subject of relating pay increases to the general rise of productivity and discussed various ways in which this might be achieved (paras. 134-8). While the Council was careful to avoid specifically advocating any of these suggestions, merely raising the issue of incomes policy sufficed to provoke another row within the FBI. A new Economic Study Group was set up in the wake of the Report to investigate incomes policies in the context of the "problem of economic growth." Over the next year it continued to debate the various aspects of alternatives to stop-go policies, such as planning and the Common Market, even as the FBI rebuffed the Chancellor's initiative on price restraint (Blank, 1973, p. 151).

These various efforts coalesced in the Brighton Conference of November, 1960, of a group of (appropriately enough) "120 industrialists" plus thirty others including the permanent secretaries to the Treasury and the Board of Trade, some leading executives from the nationalized industries, the Chairman of Lloyds and some economists on the topic of "The Next Five Years." The Conference divided into five groups, and it was the third group, considering the subject of economic growth, which proved the most innovative. Headed by Sir Hugh Beaver, it included most of the Weeks club as well as Sir Ray Geddes, the managing director of Dunlop who had earlier spoken in support of an institution which paralleled the eventual

planning body. The opening address to the Conference by Lord Amory, recently departed from the Treasury, repeated the official line on economic priorities, putting sterling and price stability first and leaving growth as a feature contingent on the success of the first two aims. Group three parted radically from this perspective, and Beaver's report to the Conference explicitly criticized the orthodox view. The other goals of policy, he asserted, could only be secured if the rate of growth was raised in the first place, and the latter was only possible through the institution of some kind of national plan. Pointing specifically to the five-year projections of the Iron and Steel Board the Beaver group suggested the use of industry-wide studies of a similar kind and the co-ordination of these with projections of state expenditure, in effect proposing the adoption of a five-year indicative plan (FBI, The Next Five Years, Brittan, 1971, pp. 239-40, Leruez, pp. 85-6 and Blank, 1973, pp. 151-3).

While the Brighton Conference hardly succeeded in an immediate reversal of industry's approach, it did produce one important convert to planning, namely Selwyn Lloyd, who had recently replaced Amory at the Treasury. Lloyd had already accepted that long-term planning was necessary as far as government expenditure was concerned along the lines then being considered by the Plowden Committee, but the Conference discussions convinced him that the private sector could gain benefits from a joint exercise. When he brought the issue to the attention of the Prime Minister, MacMillan, soon afterwards, he found an eager supporter, but one who, none the less, let him carry the burden of the initiative. Lloyd ran into immediate opposition both within the Cabinet and from the Treasury, particularly on the question of whether the eventual planning office should be independent from Whitehall. Lloyd's backers were in fact a minority within the Cabinet with Reginald Maudling, then President

of the Board of Trade, one of the leaders of the opposition. While some Treasury officials sympathized with the general notion of planning, primarily as a means of surreptitiously introducing an incomes policy to the unions, they were at the same time generally hostile to the creation of an agency outside their control. In the months following the Conference the Treasury put forward its objections to the Lloyd proposals at meetings of the so-called Economic Planning Board, another relic of the Gripps era which met monthly for discussions between Treasury officials and business and trade union leaders. There the Treasury expressed its view that the planning experiment should be confined to an expansion of the Planning Board and strongly opposed the notion of an independent office (Brittan, *ibid.*, pp. 241-4).

Meanwhile, discussions outside the state machinery focussed on two main models of capitalist planning. The first indigenous example was the Iron and Steel Board, whose operations were described earlier. While acting in many respects as a cartel in the old mold of "industrial self-government," it had pioneered five-year projections of demand and supply in the industry, having nearly completed its second plan by the time of the Conference. The second model had a Continental origin, namely French planification indicative, appropriate given the simultaneous initiative to join the Common Market. Indicative planning had already inspired some proselytizers in the OEEC, Political and Economic Planning (PEP), the pressure group founded in the thirties which was rapidly reversing its neo-liberal stance of the 1950s and which had some standing with the senior Civil Service, and the equally influential National Institute for Economic and Social Research (NIESR). These three organizations conspired in organizing a second conference, chaired by Beaver, in Easter, 1961, for the purpose of taking a closer look at the économie concertée, a system of what Shonfield has aptly termed "voluntary collusion between

senior civil servants and senior managers of big business (Shonfield, 1965, p. 128)." Staff from the Commissariat du Plan and French businessmen attended the conference to both explain the French system and reassure British industrialists that indicative planning involved no more than the name implied, i.e. that the Commissariat did not have powers of intervention or direction but rather served as a forum for state functionaries and big capital. While the French commissioner-general of the plan, Pierre Massé, focussed on the "psychological factors" and the advantages of limited competition within the context of expanded growth, Sir Robert Shone, a leading figure of the Iron and Steel Board, raised the more fundamental issue that the point of French planning was to increase and co-ordinate the investment programme of the nation. In any case by the end of the conference indicative planning had found another enthusiast (apart from Shone) in the person of Edward Boyle, Financial Secretary to the Treasury, although the Treasury as a whole, not surprisingly, remained unconvinced (PEP, Planning, No. 454, Christoph, pp. 62-4 and Leruez, pp. 87-9).

Industrialists within the FBI continued to give the lead in moving Britain towards some form of indicative planning. In the months following Brighton an FBI study group, the Committee on Economic Programmes and Targets (CEPT), was set up under the chairmanship of Beaver to investigate planning, its implications for industry and possible institutions. The Committee concentrated its efforts on looking at the alternatives to the liberal economy of the 1950s as the latter was now perceived as impossible under conditions of full employment and the increased importance of public sector investment. As far as CEPT was concerned planning in any proper sense would only apply to the state sector, while private industry its own industry-based targets. Such projections

would then be communicated to the planning bureau where industrialists, trade unionists and government officials could discuss them with reference to the implications for economic growth. The structure of the planning institution followed the by-now familiar tripartite formula, but from the start they assumed that it would be independent of the government and the Treasury and have its own staff of economists and statisticians. The view of planning was still hazy at this point, but the Beaver Committee approached very close to what they considered as the French model, which of course bore a striking resemblance to the failed programme of the Attlee government. As their ideas for an Office for Economic Development crystallized in the spring of 1961, the CEPT realized that their proposals were too advanced to get through the FBI's Grand Council. Yet, through their efforts in combination with the Easter conference and a subsequent trip of industrialists to France organized by the FBI, acceptance of at least the notion of indicative planning was spreading rapidly in the ranks of industrial capital (Blank, *ibid.*, pp. 167-70).

As the climate of industrial opinion moved rapidly in favour of a planning bureau outside the Treasury, the government flowed with the current and appointed the growth-minded economist, Alec (now Sir) Cairncross, as Chief Economic Advisor to the Treasury replacing Sir Robert Hall, who had filled the post since 1947. Lloyd also supported the establishment of a body outside the Treasury in part as a source of independent information and advice. But the whole process was in danger of being bogged down in the Cabinet and departmental committees when the economic climate received a cold shock as yet another exchange crisis broke in the summer of 1961.

The July crisis stemmed from the underlying deterioration of the balance of payments, unlike the previous failure of confidence. Yet,

the authorities had not perceived this erosion because a large volume of "hot money" had been attracted into London that more than made up for the current account deficit. The money flowed in partly in response to anxieties about the dollar and partly owing to the deliberate Treasury policy of raising interest rates from four to six per cent between January and February on top of the issue of government bonds which foreigners could purchase tax-free. The attempt to use monetary policy to influence domestic demand thus succeeded only in disguising the underlying deterioration in the balance of payments. With a revaluation in the German mark in March, 1961, and renewed rumours of a sterling devaluation, the £500m tide began to ebb. The complacency of the Treasury and Bank authorities, who did not realize that the outflow of such a sum is a different matter from its inflow simply because it raises the question of confidence in an acute and pressing way, did not aid in coping with the problem before it reached a crisis stage. In the end the Chancellor responded in the same fashion as previous ministers to the inevitable run on the pound: he imposed a deflationary package, raising the "regulator" purchase tax the maximum allowable 10%, cutting government spending and bank advances and raising the interest rate another notch. Again, as in previous cases, the stop policy was imposed after the trade cycle had already peaked of its own accord, giving the economy a firm push in a downward direction. The July measures were inflicted, moreover, in a period when the balance of payments had been steadily improving and were already back in the black (Brittan, *ibid.*, pp. 251-4).

Lloyd at the same time had to resist pressure from Treasury officials for even more drastic, i.e., more disruptive, measures. Moreover, they were backed in their extremism by a voice which became more influential as the volume of public debt in its hands increased, namely that of the International Monetary Fund. According to Brittan Dr. Per Jacobsson,

then Managing Director of the IMF, wanted a cut of £500m in government expenditure on top of the tax measures. "Although he did not receive satisfaction on this particular point, there is no doubt that - as on other occasions - a supporting deflationary programme was a condition of the IMF credit Britain was then given (*ibid.*, p. 256)."

However, perhaps the most politically important step initiated at the same conjuncture was the implementation, following strong pressure from the Bank of England, of the so-called "pay pause" in the public sector. The latter amounted to a wage freeze but only for state workers, not the first nor the last time that a British government would attempt to compensate for its lack of control over the economy as a whole by clamping down on public employees. As a result of this first exercise in an incomes policy since Attlee (which of course did not apply to all incomes but only to wages), the TUC became highly suspicious of all efforts to draw the unions into national planning negotiations. They feared that the whole process consisted of no more than a back-door wage freeze, just as under Labour the CBI came to distrust the endeavour as a hidden form of nationalization. In the end the fears of the unionists proved the more justified.

The July crisis brought matters to a head in the Cabinet. In his "crisis budget" speech of 25 July Lloyd, desperate to show that the government had some long-term policy in mind in the midst of the panic, slipped in a reference to planning after listing the various short-term measures without apparently consulting his colleagues on the substance of that section of his statement (*Leruez*, p. 92). In the meantime the idea of planning, or at least some kind of incomes policy, had received an additional fillip from the Fourth Report of the Cohen Council, published in July. This marked the conversion of the CPPI to emphasizing a cost-push model of inflationary pressure with the corollary that the government

had to act directly on incomes, prices and the rate of productivity in addition to regulating demand. With regard to productivity the Report recommended the creation of projections of manpower requirements, especially for skilled labour, assurances that higher productivity would not lead to redundancy and the "programming" of investment to ensure that budgetary measures did not fall disproportionately on this aspect of the economy as they had in the past. Moreover, given the interlocking nature of investment decisions, the national need for a higher rate could only be secured through establishing a consensus on a general programme of faster growth. "This might be done if the programmes from the main sectors were collated in a national projection of investment intentions," thus co-ordinating capacity and demand of the various sectors. Pointing to the experience of the Iron and Steel Board in the U.K., it also drew attention to the similar exercises carried out by the Commissariat du Plan and concluded that "the United Kingdom has something to learn from this experiment (para. 48)."

On the question of prices and incomes policy the Report rejected detailed controls on the grounds of "administrative complexity," preferring instead of price restraint the lowering of tariffs as a spur to competition (and noting, incidentally, the general erosion of the sterling preference network). With regard to wages it noted for the first time the divergence between the local (informal) and national (formal) bargaining systems and proposed both strengthening the latter and attempting to tie it more closely to the actual rise of productivity. Here as well as with prices it proposed not direct controls but a national projection of the expected rise in productivity. Moreover,

Such a projection could be related to a planned investment programme, and to forward assessments of manpower needs and resources. It would be an indicator of the anticipated pace of growth of the whole economy, and would be a guide for those responsible in their

own particular fields for the planning of production, the fixing of prices and profit margins, and settlement of wages and salaries (para. 67).

This line of approach received additional support from an OEEC report, The Problem of Rising Prices, published shortly before the July crisis, which gave further evidence concurring with a wage-push theory of inflation for Britain as well as for other advanced capitalist nations and apparently made some impact on those Treasury hard-liners still favouring financial measures (OEEC, 1961).

The Chancellor at any rate felt impelled by the situation to speed up the institution of a planning council. If the TUC was somewhat reluctant in the matter, and in fact had played no role in the discussions up to that point, their suspicions were mollified by their desire to exert at least some influence, however meagre, on the structure of the eventual planning machinery. The industrialists on the other hand displayed no such reticence. As one observed noted,

it was simply a matter of industry's using its influence to get the kind of planning agreements it considered desirable. Its representatives made a strong case for an almost total transfer of the French model, particularly its use of 'indicative planning' by a council of government officials, industrialists, and trade unionists, supported by a strong 'development office' of experts. What the FBI did not want was a continuation of the Treasury's monopoly of planning (Christoph, p. 71).

The FBI's reaction to the "July crisis" was a distinct departure from its previous stand in 1957. While accepting that the emergency measures were necessary to stem the panic, it now added its official voice to the growing clamour for longer-term planning to co-ordinate economic development. The announcement of the government's intention to negotiate entry into the EEC coming a few days after the special budget fitted well with industrial opinion besides linking the two issues, planning and the EEC, in the public mind. The Federation's leaders found in subsequent consultations that the Chancellor was thinking along virtually the same lines. Things were now proceeding so smoothly that

Lloyd announced a few weeks later his intention to establish "a closer link between Government and industry in order to create a climate favourable to expansion (The Times, 29 Sept., 1961)," namely the National Economic Development Council (NEDC). The only hitch remaining from industry's point of view was to establish the independence of the NEDC and especially the planning bureau or National Economic Development Office (NEDO) from government, and particularly Treasury, control. This conflict focussed on the different roles that industry and the Chancellor wanted the planning apparatus to fulfill. While for Lloyd the new organization should serve mainly as a means of mobilizing support from "both sides of industry" for economic policies or as a kind of "Royal Commission for Growth," for the FBI (as well as the TUC) its value consisted in offering more direct influence on economic policy-making or as a "pressure group for growth." These two conceptions were not that far apart, however, particularly as Lloyd too wanted to ensure the NEDOs autonomy from the Treasury((Shanks, 1962, p. 356, Lloyd, 1963, and Blank, 1973, pp. 171-7).

Negotiations with the TUC on the other hand proved much more protracted, mainly because of the "pay-pause" introduced with the July measures. Although the General Council agreed with the principle that incomes should keep in pace with productivity, it objected to the discriminatory aspects of a public sector freeze as well as with the fact that it had been implemented without prior consultation. At pains to both disassociate itself from this emergency measure and ensure that it would not unwittingly be drawn in to support an incomes policy, the TUC dragged its heels on participation in the planning dialogue. Caution was well advised since it was quite plain that for most of the government and the Treasury the whole NEDC venture was primarily a means of involving the unions in just such a programme of wage controls (Panitch, 1976, pp. 48-9).

Consequently, the unions stipulated that the planning council should 1. have the authority to set its own agenda, i.e., discuss profits as well as wages, 2. not raise the question of an incomes policy at least in the short run, and 3. include only TUC nominated delegates as labour representatives. They likewise refused to participate in the NEDC until the pay pause had been lifted (Christoph). In other respects, however, their view of the proposed council was remarkably similar to that of the employers' organizations. They too wanted independence from government and Treasury control and were mainly concerned to secure access to the policy-making machinery. They differed from industrialists only in tending to see the NEDC in the rather familiar mode of "a second parliament with a corporatist character - and because of that character, expected to be able to conclude binding agreements between major interest groups of a type which a traditional British parliament could not compass (Shonfield, 1965, p. 153)." The TUC thus viewed the Council's role in terms of a cross between a corporatist and a collective bargaining model, while the industrialists took a position somewhere between that and the government's. The industrialists could not condone the notion of binding agreements, nor even the proposal that Council members be delegates from their respective organizations, particularly since the FBI hardly had a monopoly position in that market (Blank, 1973, pp. 173-4).

By midwinter the fledgling planning organism had emerged tentatively from its Westminster shell. Lloyd's distrust of the Treasury concurred with the wishes of the FBI, and Neddy, as the NEDC was affectionately christened, was set up as a quasi-non-governmental organization or quango, the peculiar sort of half-breed that now populates the advanced capitalist landscape. The unions' wishes were taken into account to the extent that only TUC members received invitations to join the Council, but the government retained the right of appointment, after the mandatory consulta-

tions with union leaders. The General Council continued to haggle over the form of the NEDC but eventually decided to join in January, 1962. The "pay pause" in the public sector continued to be a thorn in their side, but pragmatism dictated that they join the board in order to make the "voice of labour" heard.

Two other points are worth noting about the NEDC venture. First, although some elements of City opinion were not totally hostile to indicative planning, at least in its early stages (no doubt from the same concern as the Bank for establishing and incomes policy), no financial representatives were appointed to the Council, at least in the first five years, nor any non-TUC unionists (Leruez, p. 86). Second, the employers' representatives were handicapped by the existence of three distinct peak organizations, meaning that industrialists could only be chosen as individuals (Brittan, 1971, p. 245). Only under Labour was this weakness in the representation of capital rectified.

Besides the NEDC the MacMillan government instituted the technocratic branch of the new planning agency, the NEDO. The Development Office with a staff of 75 was the brains of the operation; its task was to draw up indicative plans for the British economy in consultation with the NEDC members. In its search for administrative talent for the new bureau the government naturally fell upon the steel industry, whose Iron and Steel Board had pioneered corporate planning in the private sector, again with state sponsorship and under a Tory government. As one observer remarked,

The third five-year development programme issued in 1961 was in some ways a pilot project for the full-scale planning operation on which the British Government embarked with the establishment of the National Economic Development Council in 1962. It was not accidental that the first Director-General of the NEDC, Sir Robert Shone, was an outstanding steel economist who as a member of the Iron and Steel Board had been responsible for working out the long-range investment programmes of the industry (Shonfield, 1965, p. 96).

Shone, indeed, had been associated for a long time with economic planning, not merely in his capacity on the Iron and Steel Board but as chairman of an FBI study group which had originally accepted the Cripps initiative in 1947 (Blank, 1973, p. 90, n. 34). He was thus an archetype of the progressive industrialist with considerable experience in the interface between capital and the state and ideally suited for the post.

The relationship of the NEDO to the government reflected the concern of both industrial capital and labour to guarantee its independence from political-administrative control. Unlike the French General Planning Commissariat which was in essence an integral part of the French civil service, it was totally autonomous from Whitehall, deriving its ultimate legitimacy from its subordination to the Development Council (Leruez, p. 99 and J. & A.M. Hackett, 1963, ch. 1).

From all this it would seem that the British "drift towards planning" had gathered some momentum by mid-1962. As it all fell into place the central characteristics of the planning agency, to repeat the main points, were, first, that Neddy was independent from the Treasury and even, to an extent, from the government. Second, it was a semi-public body formed with the intention of incorporating the unions and industry within a framework influenced by the government. Third, the major difference with French planning (besides its separation from Whitehall) was in the inclusion of representatives of the labour movement. In France the unions had refused to participate, whereas the TUC was only initially reluctant. From the point of view of the government and the FBI the aim of implementing some kind of wage control was predicated on the participation of the TUC in the planning programme, and wage control defined the substance of the whole endeavour. For even the first Neddy plan, Growth of the

United Kingdom Economy to 1966, assumed that consumption would increase at a rate below that of GNP; that is, it presumed an incomes policy even if it did not stipulate one outright for fear of antagonizing the unions at the very start (NEDC, Feb., 1963, paras. 191-6).

It was in relation to the unions that the corporatist aspects of the NEDC came out most strongly. For the whole exercise can be interpreted as an attempt at "consent management." Alternatively put, the implicit object of the government was to widen the Spielraum of the state beyond the limits set by two per cent unemployment on the one hand and the defense of sterling on the other. The "drive for growth" in those last years of Tory rule, 1963-4, involved the exchange of higher growth in return for a voluntary wages policy, at least in theory. The unions in other words were supposed to collaborate with the state and big business through the NEDC and thus secure the acceptability of the concerted economy to the working class.

While the TUC had agreed to take part in the planning Council, this by no means implied its acceptance of the covert aim of the government, namely agreement on some form of wage restraint. Indeed, the latter proved the major stumbling block to Conservative planning, for the Tories concentrated their efforts over the next two years on securing just such an agreement, largely without success. With the formation of the NEDC several other advisory bodies on economic policy were wound up, namely the virtually moribund Economic Planning Board, the National Production Advisory Council and, more notably, the CPPI (Cohen Council). The TUC apparently used its participation in Nedd as a bargaining counter to force the government to withdraw the public sector freeze, so at least in the short run incomes policy was effectively vetoed (Dorfman, 1974, pp.109-15). However, the government indicated its general intention with the publication of a Treasury White Paper, Incomes

Policy: the Next Step, in February, 1962. Despite its title this document did not in fact spell out any policy measures but simply reiterated the general criterion that wage increases should be based on actual growth of productivity rather than increases in the cost of living. Its only innovation was the announcement of a "guiding light" on wage increases to serve as the base reference for the (not yet established) arbitration tribunals with the wage norm for 1962 set at 2.5%.

However, the Prime Minister was frustrated with both the continuing divisions within his Cabinet and the slow pace of consultation within the NEDC. Independently of the latter, he drew together some senior civil servants with a view to establishing some sort of arbitration commission without the prior consent of the TUC. The creation of the National Incomes Commission (NIC) was duly announced at the time of Lloyd's dismissal as Chancellor in July, 1962 (Leruez, pp. 114-5). The NIC (or Nicky) took the previous White Paper as its point of reference, i.e., "fair" wage increases were those which conformed to the 2.5% norm. However, its powers were limited to those of a Royal Commission, that is, it could consider settlements brought to its attention by the government or another concerned party and compel attendance of witnesses, but it had no sanctions to apply in cases where its decisions were simply disregarded. In the event the whole effort of voluntary incomes policy was a resounding flop. The unions refused to participate from the beginning, as the existence of the NIC violated the spirit of the agreement prior to joining Neddy. The employers, while offering at least nominal support, barely concealed their displeasure with a move that could only antagonize the TUC at a point when the latter's original suspicions of the NEDC had only just been allayed. Moreover, they were coming round to the view that it was impossible to isolate incomes policy from the whole gamut of economic measures aiming at faster growth, despite the continuing functional

division of employers' organizations along precisely those lines (Blank, 1973, pp. 178-9). As a result the NIC was at best ignored and at worst denounced by those it was intended to influence, and it quickly fell into abeyance, publishing only four reports in its two-year life-time. Perhaps its only "positive" achievement was a degree of ground-breaking in the field of productivity bargaining and a more interventionist approach to wage policies, but even such a limited conclusion is highly tenuous (see Crouch, 1977, pp. 74-81).

Stymied by union non-co-operation with the NIC the government turned its attention once more to the NEDC as the only means of securing an agreement on wage restraint. Here as well the Tories obtained little in the way of concrete action, although the attitude of the TUC was far more conciliatory. The unions were themselves split even on the question of participating in Neddy, as indicated by a defeated left-wing motion as early as the 1962 Congress calling for withdrawal. Yet, the TUC representatives did endorse the second NEDC report, Conditions Favourable to Faster Growth, which explicitly referred to the need for wage restraint (NEDC, 1963, para. 214). This lead to a major row in the 1963 Congress, only headed off by the passage of two contradictory resolutions, one supporting the General Council's role in the NEDC and implicitly its approval of the NEDC statement on incomes, the other rejecting all forms of wage policies (Crouch, 1977, pp. 209-10 and Leruez, pp. 116-7).

The extent to which the General Council had moved in a conciliatory direction was fully revealed in its report to that Congress, approved in the first resolution and later published as Economic Development and Planning. (TUC, 1963). This document reaffirmed the role of the unions in "the forefront of the advocates of economic planning (p. 6)." While insisting on the "consultative basis" of the planning approach as well as on the necessity for "voluntary associations such as trade unions,"

it none the less accepted the need for making "actions and attitudes conform to the needs of the community as a whole, as expressed in an agreed plan" which would "provide a method of reconciling sectional interests with national needs and allocating responsibilities to those best able to carry them (pp. 6-7)." The report emphasized the co-operative and consensual aspects of the NEDC project, rebuffing the alternative model of drawing up a plan within a government department and then submitting it to the Council for approval or rejection (pp. 10-11). On the question of incomes it attempted to skirt the issue of restraint by framing it in terms of "making better use of the nation's economic resources." Nevertheless, it agreed with the NEDC requirement that growth depended on "creating a situation in which money incomes (profits as well as wages and salaries) did not rise more rapidly than output." This would only be possible "if everybody concerned was convinced that it was a necessary part of a wider programme for the growth of real incomes, and that restraint by one section of the community would not merely result in a gain by other sections (pp. 12-13)."

More generally the report envisaged the planning process as an exercise in national collective bargaining, raising its implications for the unions in terms of a trade off between various economic and social priorities, e.g., better wages, more leisure, income redistribution, social benefits, etc. (p. 15). Lastly, it raised the issue of the planning process as an exercise in "industrial democracy." Planning in this sense offered a means of "influencing decisions which are made by business organisations and by Governments and which affect the lives of working people (pp. 15-16)." Thus, the General Council at least had moved quite some way towards accepting the framework of voluntaristic corporatism inherent in the NEDC project, even if it interpreted it in the traditional terms of collective bargaining. Yet, while the "consensus

"management" aspect of Nedly achieved a degree of success in that the TUC assented to the ultimate necessity of a wages policy, opposition within the labour movement prevented any further progress. As the election year of 1964 approached, the unions proved less and less willing to make even such symbolic concessions.

If the limits of voluntaristic corporatism under the Tories were exhibited quite starkly in the relations with labour, i.e., the failure to secure an incomes policy, they were no less clearly illustrated in the relations between Nedly, the established policy-making apparatus and the government, that is, on the range of economic measures apart from incomes policy. For if indicative planning was to make any lasting impact on economic growth and Britain's competitive position, it had to demonstrate its capacity for altering not just expectations but the actual course of short-term economic policy. Here as well the verdict was decisively negative. Relations between the NEDC and the Treasury were, of course, barely cordial from the start. As noted above the Treasury mandarins lost the first battle in that the Council and planning bureau were set up outside their control, but they quite clearly won the war (or at least its opening stages) in that control of policy was never relinquished to the new organizations. Indeed, even the indirect influence of the NEDC on economic policy amounted to no more than a change in the government's ideological stance, especially given the failure to produce the primary object - an incomes policy, since the actual course of economic policy remained firmly within the stop-go mold.

In the wake of the Plowden Report the Treasury was reorganized along functional lines to conform with its modern responsibilities in October, 1962. Whereas historically Treasury divisions had corresponded with the various departments of the state administration (to facilitate its main

as spending watchdog), now it was split down the middle by function into two Sides, Pay and Management on the one hand and Finance and Economic on the other. These in turn included five subdivisions, the Pay and Management Groups within the former and the Finance, Public Sector and National Economy Groups within the latter. This reorganization represented in effect the rather belated institution of the Keynesian revolution, a shift from the traditional negativism of Treasury "control" towards a more output-oriented approach to "management" of both public finance and expenditure. That is, it reflected the technocratic concern of Plowden, the restructuring of the administrative apparatus in line with a functional, output-oriented model geared to the overall requirements of capital accumulation in the advanced capitalist economy. However, at the same time this effort cannot be separated from the potential rivalry that Neddy entailed to the Treasury's hegemony of policy-making, nor from the "mood of profound distrust which had gathered round the Treasury by the time of the 1961 sterling crisis (Brittan, 1971, p. 244)." The administrative changes, along with the introduction of the "regulator" tax on consumption, thus constituted the Establishment's response to the current challenge, the hope of deflecting major reform by making the minimum necessary changes; that is, shifting the burden of short-term adjustment onto a non-discriminatory, variable tax and functional reorganization with a view to long-term programming of public expenditure (Bridges, chs. 14 & 15 and Roseveare, pp. 299-301).

The immediate result was considerable dislocation, both physical and conceptual, within the Treasury. But, the manoeuvre succeeded in preserving the Treasury's field of operations intact, at least for the length of the Conservative government. As one recent study of this ancient and venerable institution remarked, "In its construction of the

powerful 'National Economy' and 'Public Sector' Groups of divisions it was a timely readjustment of the balance of power in economic management - and the adjustment, it need hardly be said, was in the Treasury's favour (Roseveare, p. 332)." The National Economy Group, incorporating the economists from the now-dissolved Economic Section, certainly rivalled the NEDO as a prospective agency for economic planning. This Group was in turn constructed of two divisions, the first dealing with economic forecasting, both short-and-long-term, whereas the second had responsibility for the co-ordination of general policies on economic growth. The connection between Niddy and the administrative apparatus was effectively confined to this latter division. The Finance Group remained separated from National Economy, however, and retained its close links with the Bank of England as well as its orthodox view of economic policy, i.e., giving priority to the value of sterling and distrusting the planning programme (Leruez, p. 101). Thus, the split between long-and-short-term policy was mirrored in the functional division of Treasury departments, and there could be little doubt about which would have the upper hand if expansion led once again to a balance of payments deficit and/or a sterling crisis.

The NEDC was consequently excluded from the short-term management of the economy and not even consulted on budgetary matters (Brittan, 1964, p. 332). The macroeconomic stage had been set with the deflationary package of July, 1961. Yet, into 1962 and even 1963 Treasury officials had expected a rise in home demand and to "make room for exports" had encouraged the Chancellor to follow a restrictionist policy. Despite rising unemployment Lloyd made no attempt to reflate over the course of 1962, believing the predictions of his Treasury advisors that the economy was still in an upswing and had to be held in check. Indeed, his budget speech of that year indicates how wrong his information was:

I understand the national desire to throw off the discipline and restraints of the past year, but that must be a steady process timed to fit in with actual achievement and not wishful thinking. I have great confidence in our capacity to take advantage of our opportunities. It may sound hopeful to say this, but I believe that events will prove the soundness of our policy and the wisdom of our action (cited in C.D.Cohen, p. 21).

In fact the Treasury forecast was woefully wrong and Lloyd was shocked to discover in July that the projection for unemployment for the next winter had been raised to 525,000 from the original 450,000 (Brittan, 1971, pp. 266-7).

MacMillan summarily dismissed Lloyd as Chancellor on 12 July for reasons which remain unclear but most probably stemmed from the Prime Minister's impatience with his inability to secure a pay policy or force the pace of the NEDC discussions, as well as his lack of familiarity with economic matters and his inevitable association with the unpopular pay pause (*ibid.*, pp. 268-9). His replacement, Reginald Maudling, was of course hardly enamoured of Neddy, having earlier acted as leader of Cabinet opposition to the planning initiative, as noted above. Maudling's approach to reflation started on a cautious note, mainly out of continued concern for the state of sterling, as he postponed minor adjustments in the purchase tax and the introduction of investment allowances for areas of high unemployment until November. Yet, his first budget in April, 1963, seemed to mark a victory for the planning conception within the government or at least was interpreted as such at the time. This committed the government to the 4% growth rate that had been previously adopted by the NEDC as the average target for the years 1961-6. Maudling obliged with expansionary tax reliefs in the order of £250m. Indeed, even the contents of his budget speech seemed to follow the very structure of the Neddy report, Conditions Favourable to Faster Growth [see Hansard, 675, col. 455 (3 April, 1963)]. By December of that year the government had likewise published its first five-year programme of public expenditure

growth, Public Expenditure in 1963-4 and 1967-8. Indicative planning, it seemed, had finally come of age, and various contemporary observers felt that NEDD had at last established a powerful position of influence on the course of economic policy (see e.g. Mitchell, 1966, p. 143).

Yet, the victory of 1963 soon proved pyrrhic. In fact the government had already delayed too long on the reflationary move, and as a result the timing of the budget was wrong, and the economy entered a rapid boom. According to one study,

By the fourth quarter of 1963 GDP in real terms was already 8% above its level a year earlier, and demand was rising dangerously fast. (It increased at an annual rate of 16% between the third and final quarters of 1963 [CoD&G, p. 73]).

Thus, largely owing to government policy the economy was stimulated to an unsustainable level in 1963-4. The current account was already in deficit by the time of preparation of the 1964 budget, but Maudling's package was only mildly deflationary. While the forecasts of the eventual deficit for that financial year underestimated the real shortfall by some £280m, the main consideration informing the budget was undoubtedly the coming election and the political need to keep unemployment down for the coming campaign. So, if anything, the political utilization of the NEDC programme, literally 4% or bust, proved destabilizing in the short run and was a major factor in the drawn out deflation of 1964-7. That is, by the end of this period of Conservative rule the plan had served as an excuse to stimulate the economy in the traditional manner but had not offered any means of controlling the boom thus generated. The Conservatives used the timing of the budgetary expansion to give the appearance of a whole-hearted conversion to the concerted economy, all the while pursuing negotiations with the unions over pay policy. In the end the experiment in indicative planning failed to deliver the goods on both accounts. The 1963-4 expansion terminated in the same economic morass as previous

go periods, to be distinguished only by the greater severity of the problems raised, and the unions could not be induced to abandon their commitment to free collective bargaining, at least not as yet. Disillusionment with the whole idea of planning, which had never struck very deep roots in the bedrock of Establishment opinion, set in with the realization that the process of planning by exhortation had not really extended the parameters of the state's field of action.

The only area in which the NEDC project achieved limited success was in cementing the new relationship between industrial capital and the state, leading in turn to structural changes in the peak organizations of industry itself. In the course of preparing its first "development plan," Growth of the United Kingdom Economy to 1966, the NEDC conducted an "industrial inquiry" of seventeen industries in the summer of 1962. It pursued this through the existing machinery of corporate representation, that is, the trade associations, supplemented by individual firms, state officials, unions and specialists when necessary. This survey led to the conclusion that for the industries covered a growth rate of around 4.8% was perfectly feasible, and ultimately to a conflict with the Treasury which viewed the growth target as totally unrealistic. None the less, it did constitute the most systematic and reliable analysis of the state of the economy ever produced up to that point, certainly more so than the piecemeal approach of the existing government departments (Mitchell, 1966, p. 139).

More significantly the experience convinced industry of the need for a permanent structure of planning groups at the industrial level. Discussions began in the spring of 1963, and by autumn a consensus was reached on the form and function of such groups. As announced by the NEDC in December, the Economic Development Committees (EDCs or Little

Neddies as they were immediately named) would;

1. Examine the economic performance and plans of the industry, and assess from time to time the industry's progress in relation to the national growth objectives, and provide information and forecasts to the Council on these matters.
2. Consider ways of improving the industry's economic performance, competitive power and efficiency and formulate reports and recommendations of these matters as appropriate (NEDO, Activity Report, 1964).

The TUC members had also pressed for inclusion in the planning process at the industry level, so the structure of the Little Neddies again followed the tripartite model of voluntaristic corporatism, but in practice at this level management was much more strongly represented than either labour or the state. Nothing indicated the ideological change in industry so much as the formation of these committees; for they duplicated almost identically the proposed Development Councils of the Attlee period (then vetoed by industrial opposition), intended not so much as cartels (they had no sanctions or compulsory powers) but more as a system of consensus formation (the producers' alliance) and closer linkage with the state machinery than could be offered by the trade association/sponsoring department nexus. The institution of the new system, however, continued at a very slow pace: by the end of 1964 only eight EDCs had been established (Leruez, pp. 109-10 and Blank, 1973, pp. 184-6).

The experience of the concerted economy likewise affected the structure of industrial capital's peak organizations. For it became apparent that the traditional separation of industrial and economic affairs, represented by the division between the FBI and the BEC, was simply unworkable in an era when incomes policy was the lynch-pin in the development of an integrated approach to faster growth. The imperative for working out a common strategy within Nddy stimulated a rapid centralization of industrial organizations. Starting with an informal group co-ordinating policy between the FBI, BEC and NABM (formerly the NUM, renamed the

National Association of British Manufacturers), the leaders of those respective organizations announced their intention of appointing a committee with the object of concluding a merger in July, 1963. Negotiations proceeded over the next year, and by the summer of 1965 they concluded in the formation of a single peak organization, the Confederation of British Industry. The reasons for the merger were quite plainly spelled out by the FBI President, Sir Peter Runge:

The basic cause of the situation is the policy of full employment, for no Government can stand aside from the social consequences of economic fluctuation. And so we find that the interplay of wages, profits, prices, productivity, spending, exports and investment is inevitable. It becomes nonsense to think that they can any longer be compartmentalized. They must be studied, debated, and if need be, negotiated, together (FBI, Grand Council minutes, 10 July, 1963).

Thus, while industry continued to reject any hint of state compulsion in the institutions of the concordat economy, the very process of indicative planning impelled a fundamental change in the structure of industrial associations, one which had eluded corporate leaders for close on to half a century (Blank, 1973, pp. 181-3).

Theoretical Evaluation of Conservative Planning

Given the limitations of this "second experiment" in "democratic planning," it is quite easy to dismiss the entire exercise as a public relations manoeuvre to covertly secure trade union agreement on incomes policy. While there is considerable truth in this viewpoint, the Nedd venture did at the same time represent something more, that is a shift in the relationship between the state and the major constituent classes of advanced capitalist society. The institution of indicative planning in however attenuated form constituted a transition, by no means irreversible, from the economic liberalism of the 1950s to the voluntaristic corporatism that characterized the 1960s and, in part, the 1970s. These

distinct paradigms of state-society relations can be defined along three dimensions: 1. the representation of major interest groups, classes or class fractions in so far as they are organized, or the input dimension; 2. the economic((and social) role of the state, the degree of intervention or the output side; and 3. the internal structure and mode of procedure of the state administration. In the following I shall briefly sketch these two models, but in so doing I wish to re-emphasize that the distinctions between them are by no means hard and fast, that they represent points on a continuum rather than sharply defined alternatives, which is perhaps a major reason why definitions of corporatism proliferate in a geometric relationship to the number of studies on the subject (see Panitch, 1979). I will also attempt to show following the earlier analysis that all three dimensions, input, output and structure/procedure, not only arise out of the contradictory process of capitalist development but express the same in their very implementation, that is they displace the contradictions to the political level but cannot arrive at a final resolution. As such the attempt to introduce any system of representation, economic policy and/or mode of procedure produces within itself conflict and inadequacy that negates the utility of any strategy, and no amount of mixing of the various types along any dimension is capable of achieving a sufficient resolution.(see ch.1, pp. 17-19).

The post-war regime as consolidated in the early 1950s attempted at least a partial return to the model of economic liberalism. In fact this was impossible given the vast changes in the structure of the capitalist economy, increasing concentration, the enhanced position of working class organizations, etc., not to mention the institution of the welfare state and above all else the commitment to full employment. The

resulting hybrid, described in the previous chapter and known at the time under the logo of Butskellism, is best subsumed by Crouch's concept of liberal collectivism (Crouch, 1977, pp. 30-3). Thus, with regard to representation, although the formal system remained defined by the characteristics of classical liberalism (geographic representation on the basis of aggregations of individual preferences as mediated through Parliament), the informal network of functional mediation emerged with an important role, if greatly diluted by comparison to the war and reconstruction periods, in a roughly pluralist form; that is, the trade association (or trade union)/sponsoring department nexus retained a pluralist emphasis. Trade associations, while monopolizing the representation of their particular sectors, did not substitute administered for competitive relations internally; they were not compulsory and, though hardly democratic, had no specific sanctions over members or non-members, nor any legal privileges (apart from privileged access of a limited nature via the sponsoring departments). Likewise, their goals remained largely self-determined, outside of any formal or informal coercion on the part of the state, although of course they were influenced indirectly by the existence of full employment and the high taxation generated by the welfare state. The same applies more or less to the unions, although their influence was even less under the Conservatives with the important exception of the continued commitment to full employment despite considerable pressure from all fractions of capital against it.

On the output side (the state's function in the economy), the term Butskellism disguises certain important differences between the Labour and Conservative approaches. For Labour, at least until the 1970s, remained fairly consistently Keynesian, whereas the Tories, as noted in Chapter 5, flirted with monetarism throughout the decade. Similarly, the

Conservatives, while not attempting to roll back the role of the state (apart from a few examples like the denationalization of steel), certainly succeeded in curtailing its growth at least in proportional terms. Keynesianism was in other words reduced to its minimal sense, a commitment to full employment but through the least degree of state intervention possible, an approach which reached its apogee with the "two lever" theory embodied in Operation Robot. This strategy of course ultimately broke down as it resulted in stop-go economics and the disruption of both public and private investment programmes. "Monetaristic Keynesianism" contained as many contradictions as the name implies, and at least at this point it was monetarism that fell by the wayside.

The internal structure and mode of procedure of the state administration were, like other aspects of liberal collectivism, essentially hybrid, though heavily weighted toward the *ancien régime*. The structure, that is, remained predominantly bureaucratic and the procedure traditional. The revival of the Treasury and its traditional system of ad hoc negative control largely reversed any earlier attempts to functionalize the system of economic policy-making, although inevitably certain elements associated with Keynesian macroeconomic management, such as the preparation of national income and expenditure tables, preserved functional and technocratic aspects. Taken as a whole, bureaucratic structure and traditional procedure meant that the dominant political forces determined the direction of economic policies. Given its privileged structural position in the state administration via the Bank of England and the Treasury and the ideological advantage afforded by neo-liberal revivalism, the priorities of financial capital dictated the aims of the policy-making apparatus, although of course it was restrained by the impossibility from the government's point of view of throwing off either full employment or the welfare state. The result was administrative as well as economic con-

fusion and conflict, the dysfunctional consequences of stop-go policies and Treasury control.

The NEDC experiment involved innovation along all three axes, which together can be described as a shift to voluntaristic (Crouch, 1979, pp. 33-40) or pluralistic (Harris, 1972, p. 236) corporatism. While the experiment remained incomplete, since it was interrupted by the return of a Labour government in the 1964 election, it is possible to outline the main features of the new system, particularly as Labour was in the end restricted to consolidating them with a few embellishments.

As regards representation the NEDC itself was paradigmatic of the move towards corporatism. Constituted on the functional representation of the major class divisions, labour and capital, it preserved a purely voluntaristic, non-coercive status. At the same time members of the Council and the EDCs were appointed, not elected, on the basis of prior consultations, a fairly effective means of screening out undesirables, especially on the trade union side but also in the case of business (e.g., the exclusion of City representatives). While there was no attempt to restrict internal competition within the different sectors of the advanced capitalist economy, there was a rapid move towards centralization of the main organizations of capital and labour. The TUC was granted sole recognition for representing labour, and within the first year it was increasingly called upon to centralize and "modernize" its direction of the labour movement, although in the end this proved totally unsuccessful. (Blank, 1973, p. 182). The peak associations of industrial capital rapidly concluded a merger agreement, as described above, but in neither case were the Council members delegated executive powers. The state thus preserved if not sanctions (except indirectly through denial of access to influence and information) then at least controls over the members, nor was it obligated to observe the Council's recommendations.

While the extent to which the actual course of economic policy was actually influenced by the NEDC plan is highly suspect, there was without doubt a change of emphasis. The government at least had to package its policy measures in the language of planning, introducing a new vocabulary of targets, five-year programmes, etc., and was thus subject in the longer run (had it won the election) to criticism on the basis of those projections. Given the voluntaristic nature of the exercise and the deep concern on the part of both industrial capital and labour to block the use of coercive powers in either of their respective domains, the extension of state intervention was confined to the institution of the industrial survey on the one hand and negotiations on incomes policy on the other. If the ends had changed, the means remained the same, that is, the government embarked on a classical Keynesian expansion without taking any steps to prevent it ending in either a balance of payments deficit or a financial crisis or both. While the Conservative had apparently ruled out monetary restriction and deflation as the means to stop economic overheating, they had as yet found no alternative, although certain possibilities existed which I shall come to shortly.

The changes in internal structure and mode of procedure I have already described in detail. To summarize, the key innovation was the introduction of technocratic aspects both in the NEDC and the reorganization of the Treasury. The logic of this approach is to gear the formation of economic policy to the needs of national capital taken as a whole within a long-term perspective, i.e., determination by output instead of input. The "staff of experts" in charge of setting economic goals had to be emancipated from the short-sighted determination of the same by the dominant political forces within the state system, that is, the relative autonomy of the state from the primary political forces had to be enhanced. This strategy could not succeed for the following reasons. In the first

place, as argued before (Ch. 1, pp.17-19), the instrumental goals of such a strategy must be formulated outside the state system itself; they are the givens, while the point of technocratic practice is simply to devise the most effective means of meeting them. In Offe's terms, "the state in its specific capitalist form is unable to impose on its environment its own definition of a set of goals that it could pursue according to instrumental rationality (Offe in Lindberg et al, p. 138)." Neddy attempted to overcome this particular weakness by arriving at those goals through a restricted consensual procedure, or what I have called following Crouch voluntaristic corporatism. The implicit idea behind this strategy was that the Council could reach an acceptable consensus on general economic priorities or, alternatively, that the goals of industrial capital could be made palatable to the union leadership and thus acquire needed legitimacy in the labour movement, i.e., the as yet unfulfilled promise of the producers' alliance. NEDO and/or the Treasury's National Economy Group would simply work out the implications of and appropriate means for securing those ends.

Indicative planning in its first stage fell apart at this point. On the one hand the unions would not accept their designated role in the producers' alliance as the policemen of the wages' structure. In this they were no doubt motivated on the one hand by the approach of an election which promised a Labour victory and on the other by apprehension of a possible statutory pay policy as implied in the "pay pause" of 1961, fears which were confirmed by later events. On the other hand the implementation of technocratic procedure had only been partial; the Treasury retained its control over the key levers of economic policy, and the City-Bank-Treasury axis remained unbroken. Ultimately, the impossibility of a "pure" technocratic procedure rested on the need for the determination of policy ends outside the state administration proper. In other

words the ends pursued could only be arrived at politically, whether through the traditional mediation of Parliament, the "functional parliament" as institutionalized in Nedd or the political domination of the various bureaucratic agencies. While the planning system was never put to the test under the Conservatives, the failure to break the institutional hold of financial capital could only mean that its particular needs and interests would predominate in the long or even short run. In the end the Tories received a period of grace while they pursued a pre-election reflation. How they would have coped had they won at the polls can only be a matter for conjecture, but given the above analysis the prognosis for planning was decidedly dim.

Beneath the failure of Tory planning lay the same basic fault that fractured the earlier efforts of the Attlee government, namely the limits placed on the process by its voluntaristic nature. If the narrative of events under the Conservatives differed from that under Labour, this was due simply to the "revolution in industrial attitudes," i.e., the fact that industrial capital now spearheaded the planning offensive, while the unions baulked at the first sound of gunfire, rightfully sensing that they would provide the cannon fodder of technocratic capitalism. However, the framework of voluntarism could not contain the inherent contradiction between the logic of planning and the logic of the market. While this contradiction was displaced to the political level and thus found expression in the political and administrative conflict over priorities and means of implementation, it none the less remained the unresolved core of the inadequacy of indicative planning. For to achieve even moderate success planning implied a correspondence between ends and means. The projection, comparison and harmonization of the most detailed targets was a useless exercise without stipulating effective means of se-

curing them, that is, some degree of coercive measures. Otherwise, the old problem of short-versus-long-term economic policies, balance of payments deficits, a run on the pound, etc., was bound to shatter the programme sooner or later. Likewise, firms operating within a competitive capitalist framework would not simply be cheer-led into investing their surpluses into unprofitable ventures in the interest of national rationalization. Planning, to put it in simplest terms, meant compulsion.

A brief look at the reasons for the relative success of French planning confirms this diagnosis. For the Conservatives certainly misconstrued the basis of that achievement. This was perfectly understandable since the compulsory aspects of la planification française were ruled out politically in the first place; both industry and labour were highly jealous of their independence from the state. Likewise, the French administrators and businessmen recruited in the effort of selling their system to British industry emphasized the indicative aspects, portraying it as no more than a piece of collective market research and downplaying the coercive elements (Leruez, pp. 88-9). Yet, a closer look reveals that the period of ascendancy of French planning was precisely that when the planners had control of the greatest weapons of compliance. As indicated in the previous chapter this occurred in the immediate post-war period, when the Marshall Plan placed large funds in their hands, when Monnet convinced the employers that the alternative was nationalization and when in any case the latter relied on the state for two-thirds of their investment funds since they could finance only a quarter from internal sources (S. Cohen, 1969, Chs. 1 & 2). In the course of the 1950s the proportion raised from company profits recovered to around half, although this was still well below the British equivalent which varied between 75 and 65%

over that decade, only declining in the 1960s to a level in line with or even below that of the French (Glyn and Sutcliffe, 1972, p. 122 and NEDO, 1975, p. 53). Consequently, French planning ran into the same problems that later faced Britain in much more serious form, namely the disjunction between short-term policy and long-term projections reflected in administrative conflict between the Ministry of Finance and the Treasury (with the latter promoting expansion), the difficulty of programming and controlling public sector growth and an influx of imports during expansionary periods. The result of these developments was that by the 1960s the plans were increasingly devalued, not that they had much influence over the actual course of economic policy in the 1950s in any case. The Fourth Plan (1962-5) could not influence the rise of prices, imports and incomes in the context of an increasingly open economy due to participation in the EEC, with the result that the government relied upon the usual stop-go measures. By the Fifth Plan (1965-70) the whole exercise of physical targeting was downgraded and stress placed instead upon "financial balances" (including incomes policy) and "structural objectives," i.e., industrial concentration (S. Cohen, 1969, Chs. 15, 17 & 18). The chief difference between French and British policy in the 1950s was that when faced with the problems of inflation and import penetration in 1957, the former embarked on a competitive devaluation while the latter deflated and saved the pound in a repeat performance of the 1920s.

In the British case the success of planning even in the limited sense of continuing the higher rate of expansion past the election of 1964 depended upon the introduction of compulsory measures, in particular controls on incomes to halt inflation and channel resources into investment and action to prevent a balance of payments deficit from becoming a run on the pound, such as restrictions on short-and-long-term capital move-

ments, government spending overseas and devaluation. Given the restraints of voluntarism the Conservatives proved unable to make steps along any of these lines. Trade union recalcitrance prevented the formulation of an agreement on incomes policy, while with regard to measures dealing with sterling and the balance of payments the Tories at least overtly showed signs of preparing any of the necessary measures. From the available evidence on the government's intentions and actions it is safe to conclude, as stated above, that Conservative planning was in reality a fairly elaborate packaging of traditional expansionist policies with a view to both securing an incomes policy and winning an election.

There is a sense, however, in which the exercise was a "missed opportunity" as its defenders always maintained in the face of later criticism on the part of both Labour and the City. (Brittan, 1971, p. 230). For if the government's lack of commitment to the full implications of planning was apparent, the same cannot be said of the NEDC. I have already dealt with the Council's efforts on the question of incomes policy, but it likewise gave full and prescient consideration to the balance of payments and sterling problems. The first report, Growth of the United Kingdom Economy to 1966, projected a surplus on the balance of payments of £300m as necessary to finance public and private investment abroad and leave £50m over for an increase in the reserves as security against another financial panic (paras. 267-71). However, this analysis simply assumed that the competitive position of British products would improve given the expansionary climate, that the government would hold interest rates below the 1961 levels and that the reserves would be adequate to meet the strain of a balance of payments deficit in 1963 or 1964 (paras. 272-87).

By the time of Conditions Favourable to Faster Growth (April, 1963), such assumptions looked increasingly fatuous, and this report considered a variety of measures to contain the problem. Such measures included

full use of the available lending facilities, reserves and foreign securities, tightening up exchange controls over short-term capital movements (even up to repatriation of surplus funds held in non-sterling countries), longer-term loans for small firms entering the export markets (as advocated to the Radcliffe Committee) as well as aid to the shipping industry, a tighter reign on government spending abroad, and fiscal changes to tax imports on the same basis as home products (remitted in the case of exports) (paras. 114-29). Should these have proved ineffective the report also considered the use of more powerful sanctions, such as export subsidy, quantitative import controls, long-term funding of the sterling balances through the IMF, and restrictions on private investment abroad (paras. 137-59). However, with regard to the latter the curtailment of investment into even the developed countries of the sterling area was ruled out because among other reasons "they are substantial holders of sterling balances whose willingness to hold them might be affected by such a move (para. 154)." None of these latter measures were seen as long-term steps to "secure a permanent improvement in the balance of payments (para. 160)." But the Council's consideration of such actions even as emergency measures testifies to the radical nature of its thinking at the time. The important point is that they foresaw the likely run of events and were willing to contemplate the necessary compulsory measures to meet a crisis. In the words of the report:

If it was apparent that measures were in hand which would tend to improve the balance of payments, -then it should be possible to cushion the impact of the deficit on the reserves by substantial drawings from the IMF or by other official borrowing abroad... In addition, a temporary rise in short-term rates of interest in this country would probably attract an appreciable volume of funds from abroad, and it would be possible to offset any undesired deflationary effects this might have on the domestic economy. In these circumstances it might be possible to tolerate a substantial deficit for a year or so before additional action would have to be taken to improve the balance of payments.

If, however, no measures were in hand which could be expected

to improve the balance of payments, such a deficit would soon lead to adverse capital movements. It would be difficult to borrow abroad, and higher interest rates might fail to attract much foreign capital. The whole impact of the deficit, aggravated by speculative capital movements, would fall on the reserves. In these circumstances it would be a matter of only a few months before action of some kind would have to be taken (paras. 118-9).

It is impossible to gauge how deep support for such measures had penetrated into industrial capital, even given the approval of the industrialists on the NEDC. The next report, The Growth of the Economy, published in March, 1964, made no mention of them but simply revised the estimates of the expected current account surplus downward to £225m, eliminating among other items an increase in the reserves to cope with an emergency (paras. 150-2). Yet, industry had favourably received the expansionary budget of 1963 and certainly continued to back the planning initiative up through 1964 (see e.g. FBI Review, May, 1963, p. 20). Given effective leadership from the NEDC along with assurances on the temporary nature of compulsory measures and TUC concessions on wage restraint, industry might well have swung behind them. The hard core opposition would inevitably have centered on the City and the Bank of England, which had pushed throughout the previous decade in precisely the opposite direction, for the removal of exchange controls and the return to convertibility. While consideration of historical possibilities cannot be in any sense conclusive, it seems likely that the completion of this "unfinished experiment" would have faced its greatest test with the growing balance of payments deficit in 1964. In any case it failed long before, and it was left to the incoming Labour government to try and put planning back on the agenda.

Before turning to the policies of the Wilson governments, it is worth while investigating briefly the ideological aspect of planning for both industrial capital and labour, particularly since the symbolic aspects of the whole business were, if anything, more significant

than its substantive effects. Winkler's discussion of corporatism, while deficient in other respects, serves quite well as a paradigm of this ideology, particularly his for themes of unity, order, success and nationalism (Winkler, 1976).

As regards unity

the underlying theme of planning was certainly in favour of co-operation rather than competition, both within capital and between capital and labour, although of course in the voluntaristic stage no steps were taken to back this emphasis with specific sanctions against strikes or "wasteful competition." Planning thus mediated symbolically between the opposing claims of capital and labour, stressing their common goals of a full-employment, high-wage economy as preferable to fighting over the fruits of decline. As such it was very much the grandchild of the Mond-Turner talks of the 1920s, following the same logic, though unstated, of a producers' alliance.

The order implicit in the planning programme had a strong managerial flavour. For no consideration was given to reducing the inequalities of capitalist society; indeed this was ruled out as distributional squabbling, which the whole effort was designed to avoid. Rather, the aims of the exercise were centralization and control of conflicting elements as they had emerged under the period of liberal collectivism and harnessing them to the creation of an ever greater economic pie. Neither democracy nor workers' participation were included in the terms of reference of the NEDC, and the subsequent focus on wage restraint followed from the managerial perspective. Likewise, the general suspicion of the liberal economy embodied in the planning initiative stemmed at least in part from industrial management's self-legitimation in terms of administrative rather than market rationality (Crouch, 1977, pp. 36-8). Success, as Winkler points out, meant "efficacy in the attainment of collective ends (p. 108)," ends which again corresponded with an industrial manager's view of the British

disease, i.e., rationalization, efficiency, growth, greater productivity, national competitiveness, etc. The technocratic elements of the planning process, although ultimately subordinated to political determination, exemplified the output orientation implied in this notion. Political adequacy was redefined as the achievement of specified general economic targets rather than the fulfillment of political responsibilities or moral commitments.

Finally, nationalism like unity mediated between the conflicting demands of capital and labour, emphasizing their common ground before an external threat. In the British context it served the same purpose as government control over the selection of Council members, placing limits on the expression of class conflict and turning such feelings towards the challengers beyond the Channel. Lest the accompanying attempt to enter the EEC should be seen as in conflict with this theme, it should be noted that this, too, could be portrayed in national colours. It was certainly possible to depict the move towards Europe as a means of "strengthening" Britain, of making a break with the imperial past and opening up a whole new pattern of trade that would act as a spur to economic growth. Indeed, the move was depicted in exactly those terms by one prominent industrialist, Sir Frederick Catherwood (later head of the NEDO). In one article under the heading of "The National Interest" he argued that,

We have to plan on the basis that this shift [from trade with the Commonwealth to trade with the advanced capitalist nations] will continue, which means planning to live with and cope with vigorous competition of advanced, high-wage, capital intensive economies rather than the closed-trading system inherited from the Empire in which we made and sold everything from teapots to motor-cars in return for sugar, rubber, coffee and all other primary products (Catherwood, 1969, p. 6).

If the programme of voluntaristic corporatism made up to a degree in ideological coherence what it lacked along the other axes of this analysis, i.e., political representation, economic policy, and mode of procedure,

this leaves the Labour government that followed an even greater enigma. For seemingly the greatest spanners in the planning works were, first, the continued political suzerainty of the City, and, second, the refusal of the TUC to support an incomes policy. The Wilson government was certainly well placed to overcome these political hindrances. It might have precipitated a more complete dissolution of the City/Bank of England/Treasury axis and could certainly have induced the TUC to support limited wage control in return for convincing social reforms and a stronger voice in economic policy. Moreover, the concept of national economic planning was no anathema to Labour's front bench. On the contrary it appealed both to Labour's nationalism and its need for a symbolic substitute for public ownership, one which involved the co-operation of capital and labour rather than the dismantling of the class system. The failure of the Wilson governments to implement this strategy, despite the electoral rhetoric of the "white heat of the technological revolution" and the need for "socialist planning," is both mysterious and explicable, as we shall see in the next chapter.

CHAPTER SEVEN

The Apotheosis of Indicative Planning:

The Labour Governments of 1964-70

Hegel remarks somewhere that all facts and personages of great importance in world history occur as, it were, twice. He forgot to add: the first time as tragedy the second as farce. [Harold Wilson for Ramsay MacDonald, Callaghan for Snowden, Balogh for Keynes, Lord Cromer for Montagu Norman, the SEP for the EAC, the IMF for J.P.Morgan.] And the same caricature occurs in the circumstances attending the second edition of the [bankers' ramp].

[Apologies to] Karl Marx, The 18th Brumaire of Louis Bonaparte.

We're about as fantastic and sensational a failure as any government could be. The situation is so bad that I've warned the Prime Minister that I'd have to raise the subject of devaluation.

Richard Crossman, The Diaries of a Cabinet Minister,
November 21st, 1966.

If Labour had proclaimed itself the "party of growth" in the run up to the 1964 election, it hardly demonstrated any greater ability in breaking out of the stop-go cycle than the preceding Conservative governments. Labour's programme for the sixties was hardly radical. While it had not thrown out Clause Four of the Party constitution, the emphasis at the election was placed far more on modernization, the need to develop new industries (with state aid if necessary), to foster a technological revolution and to enact various social reforms especially in education to secure wider opportunities as part of a general platform of bringing Britain back to the ranks of the advanced capitalist nations of the West. However, the continuity with the Conservative approach to planning was far greater than the change of ruling party might lead one to suppose. Labour was committed to voluntarism, at least in its early stages, and thus equally restricted by the bounds of a capitalist mode of production and the need to secure the acceptability to the representa-

tives of capital and labour of the main planks of its programme. To the extent that this principle was violated, this occurred mainly against the wishes of the trade union movement. Consequently, the approach to planning remained throughout in the indicative mold: sanctions were to be used sparingly and temporarily, if at all. The new government thus ran head on into the same problems that had bedevilled Tory planning, the disjunction between short-term measures and long-term projections, the inability to deal effectively with balance of payments deficits and most notably the veto power of crises of confidence as expressed in the foreign exchanges. From the start the Wilson governments were caught in bind foreseen by the NEDC report of some two years previous; lacking a set of measures to cope with a balance of payments deficit and rejecting the obvious option of devaluation, its only course was to react to the inevitable sterling crisis with deflationary measures and increasingly severe wage restrictions in a vain attempt to save the pound. The refusal to devalue either on assumption of office or in the following two years, explains much of the failure of Labour's technocratic and social programme, including the National Plan. What needs to be explained in the first instance is the obstinacy on this key issue.

Planning, the City and Devaluation

When the Labour government returned with a slight majority on 16 October, 1964, it faced the immediate problem of a balance of payments deficit far in excess of what had been expected. The choice before the new government was both urgent and highly significant in that the policies of the next six years were tightly constrained by Labour's reactions to the first crisis. In simplest terms it boiled down to devaluation or deflation, although Harold Wilson did his best to avoid that choice for his first nine months in office. Within the first few days the new Prime Minister declared himself against devaluation, a view which re-

ceived strong support from the Bank of England and the Treasury, although his most important economic advisors, Thomas Balogh, Nicholas Kaldor and Robert Neild, argued the alternative case (Brandon, ch.4 and Crossman, Vol.1, p.71). Wilson's priorities on matters of economic policy were subsequently revealed in an interview printed in the Guardian about a year later:

Although [devaluation] would have given us a year or two breathing space free from all anxiety about foreign balances, we felt that, whatever the temptation from the party point of view, the national interest was one hundred per cent the other way... I do not deny it would have made life more tolerable with our narrow majority; that it would have enabled us to carry through generous programmes of social reform, but it would not have been right. [Indeed, it would have been] totally wrong [since] there are many people overseas, including governments, marketing boards, central banks and others, who left their money in the form of sterling balances, on the assumption that the value of sterling would be maintained. To have let them down would have been not only a betrayal of trust, it would have shaken their faith about holding any further money in the form of sterling (cited in Miliband, 1972, p. 362).

One could hardly ask for a more straightforward statement of the Bank of England's point of view. Wilson's wholehearted embrace of the priorities of the City gives the essential clue to the course of Labour policies over the next few years. For in essence the weakening position of the pound strengthened the hand of the Bank and the messengers of international finance in setting the tactics of a government committed from the start to saving the international role of sterling at the expense of virtually every other aspect of its programme.

Rejecting immediate devaluation the government fell back on alternative proposals prepared under the Tories for either import quotas or an import surcharge of short duration. The latter option was announced in the White Paper, The Economic Situation, issued on 26 October, set at 1%. The same document managed in the same breath to disavow "any policy based on a return to stop-go economics" and announce an annual balance of payments deficit projection of £800m.

If international confidence was hardly reassured by this first statement on economic policies, it received a major jolt with the announcement of an interim budget on November 11. The latter confirmed the government's intention of pursuing various social measures including the abolition of health service charges as well as the introduction of Corporation and Capital Gains Tax in the first full budget the following April. The economics of the social reforms were not really at issue, since they were basically non-inflationary. The reaction of the market was based far more on the implied priorities of the budget, that Labour was putting welfare before orthodox financial stringency. This first crisis set the pattern for later years. Heavy selling of sterling followed immediately and quickly gathered momentum to become one of the worst runs on the pound up to that point. The new Prime Minister and the Chancellor of the Exchequer, James Callaghan, were in almost constant session with the Governor of the Bank of England, Lord Cromer, and senior Bank and Treasury officials. By Wilson's own account, "we had to listen night after night to demands that there should be immediate cuts in Government expenditure, and particularly in those parts of Government expenditure which related to the social services (Wilson, 1971, pp. 61-2)."

Word soon spread to circles of foreign bankers (highly sensitive to suggestions of governmental incompetence by the Bank Of England) that the Bank was recommending an increase in Bank rate. When this was refused for the second Thursday in a row, the speculative wave really mounted. The crisis mood was reinforced by news from Geneva that the British representatives at the EFTA conference were under heavy pressure for assurances that the temporary import surcharge would be reduced in a matter of months, an assurance that Wilson immediately offered (*ibid.*, p. 63). Selling continued at such a heavy rate, however, that Bank rate had to be raised on Monday, 23 November, from 5 to 7% (Hirsch, p. 129). Even this failed

to stem the tide, and with the reserves at the lowest level since the war the "inner Cabinet" held an emergency meeting with the Governor the next evening. Wilson's account of this meeting with Lord Cromer demanding "all-round cuts of expenditure, regardless of social and even economic priorities" illustrates well the pressures on the government:

Not for the first time, I said that we had now reached a situation where a newly elected Government with a mandate from the people was being told, not so much by the Governor of the Bank of England but by international speculators, that the policies on which we had fought the election could not be implemented; that the Government was to be forced into adoption of Tory policies to which it was fundamentally opposed. The Governor confirmed that this was indeed the case.

I asked him if this meant that it was impossible for any Government, whatever its party label, whatever its manifesto or the policies on which it fought an election, to continue, unless it immediately reverted to full-scale Tory policies. He had to admit that that was what his argument meant, because of the sheer compulsion of the economic dictation of those who exercise decisive economic power (Wilson, 1971, p.65).

The Prime Minister replied that he was "not prepared to accept it" and suggested that he had no alternative to floating the pound. Faced with this situation Lord Cromer managed to raise £3,000m in stand-by credits from the "Basle Club" of international central bankers. But, while the Prime Minister had successfully put off irrational demands for cuts "even to the point of stopping the road-building programme, or schools that were only half constructed (ibid., p. 62)," from that point on the government was in debt to international finance and its freedom of action correspondingly curtailed. Its facility in raising the international funds increased the Governor's leverage, and in the following months Labour began to dose out deflationary medicine according to the Bank's prescription. The implicit conditions of the loan were two-fold: 1. maintaining the value of sterling as the government's top priority and 2. whittling down the proposed tax changes of the next budget so as to strengthen "international confidence (Hirsch, p. 122)." In this poker

game with international finance Labour had succeeded in holding on to existing levels of public expenditure but only at the expense of dropping most of its programme of social reform. Thereafter, devaluation became known in Cabinet circles as "the unmentionable (Brandon, p.43)."

Despite this international rescue operation and the gradual imposition of deflationary measures, the pound remained edgy throughout the winter and spring. In December the government withdrew £357m from the IMF to pay off the November bank credits. In February, 1965, continued pressure from EFTA partners led to the announcement that the import surcharge would be reduced to 10% by the end of April. The April budget included both deflationary tax increases and direct action to improve the capital account of the balance of payments. The latter were supplemented by various measures in later years designed to restrict overseas investment and government spending abroad, but the total of such actions only managed to stabilize the outflow rather than substantially reduce it. More indicative of the underlying logic of Labour's policies was Wilson's mid-April speech to the Economic Club of American businessmen in New York, in which the Prime Minister pledged his "unalterable determination to maintain the value of the pound (Brandon, ch.8)."

Yet, even with these steps and further credit restrictions in April and May the pound again came under heavy pressure in July and August resulting in another set of emergency measures on 27 July, including hire-purchase restrictions, postponement of the starting dates of public sector capital projects, limits on local authority lending and exchange controls. Lord Cromer, who had been publicly sniping against the government since February, argued that even such steps were inadequate and evidently felt that "the financial end of the world was near (Wilson, 1971, p. 174)." By this point he was even advising the ~~Prime Minister~~ of the need to form a National Government, but memories of 1931 proved too strong for

Wilson to comply with such apocalyptic fantasies (Brandon, ch.9).

None the less, pressure on the pound fell off by the end of August, and the government received a respite from such bouts of speculation for the following year.

Meanwhile, Labour was attempting to make good its claim to be the party of planning. One of its first acts brought much of the planning machinery within Whitehall in the form of the Department of Economic Affairs under George Brown. The DEA structure was essentially technocratic, composed of functional divisions, two concerned with co-ordination of internal and external economic policy, and one each for economic planning, industrial policy and regional policy. The model for the DEA certainly approached that of the war-time Ministry of Production, and indeed the whole project closely paralleled the similar effort under Attlee. Like the earlier experiment in "democratic planning" its most novel feature was the introduction of industrial advisors into the Civil Service staff, largely on secondment from their various firms. Frederick (later Sir) Catherwood entered as the first chief industrial advisor, an appropriate choice as a former head of British Aluminium, itself founded only with state support under Attlee. Supplementing him as the "core group of industrial advisors were Frank (later Lord) Kearton of Courtaulds, George (later Lord) Cole of Unilever and Siegmund (later Sir) Warburg and John Berkin of Shell, who together had "an enormous influence on the apparatus we set up (George Brown, p. 94)."

The government in other words intended the DEA to act as the institutional voice of industrial capital, and industrialists proved more than willing to work closely with Labour as far more of them were incorporated into the framework of the state than under the preceding Tory governments. Although there were growing doubts in the later years of the government, at the early stages many industrial leaders could no doubt have agreed

with Donald (later Lord) Stokes of Leyland that Labour "has consulted industry much more than its predecessor and that he and his fellow directors aren't against it (Crossman, Vol. II, p. 26, also p. 546)." These feelings were particularly focussed on George Brown, who for his part reciprocated, as he noted, "At the initial stage, and for quite a long time afterwards, the relationship between leading industrialists and the Labour Government was exceedingly close and good (Brown, p. 94)." Perhaps, the best symbol of this symbiotic relationship between Labour and "progressive industry" was the appointment of the third Lord Melchett as head of the newly renationalized steel industry in 1967.

In theory the DEA was to take charge of co-ordinating the entire gamut of economic policies. Consequently, its brief overlapped that of the Treasury in virtually every respect. If the Tories had established the NEDC as a "pressure group for growth," so Labour set up the DEA as the "spokesman for industry," which would co-exist in "creative tension" with the Treasury over the formulation of economic policy. This viewpoint of the role of the new agency, which prevailed in the short run, stemmed largely from the Prime Minister. Brown, however, had a distinctly different and more radical perspective. For him the essence of the "DEA revolution" was to institute "a wholly novel form of national social accountancy to replace the orthodox financial accountancy by which the Treasury [had] always dominated British life (ibid., p.87)." As such the DEA would have been "superior to the Treasury in determining the country's economic priorities (ibid., p.88), while the latter would have been reduced to a continental-style ministry of finance, simply executing the decisions of the DEA as a subordinate department. As it actually unfolded, the economic crisis which overwhelmed the government in its first few weeks generated considerable confusion over economic responsibilities

which was only resolved by a "Concordat" dividing the authority of the two departments. The DEA would concentrate on long-term policies and "physical resources" leaving the Treasury in control of short-term measures and financial issues (Leruez, pp. 136-7 and Brittan, 1971, p.312).

Of course the Concordat begged the fundamental question of just how long-and-short-term policies would be co-ordinated with one another. Moving the planning apparatus within the framework of the state had not resolved the most glaring weakness of the whole experiment. Or, to put it another way, it ensured that the issue of the control of economic policies would be settled by bureaucratic politics, ultimately guaranteeing the predominance of orthodoxy. As Brown unhappily discovered,

Once the heady first days had gone and the novelty had worn off, the Treasury began to re-assert itself, and with its absolute superb mastery of the government machine gradually either filched things back or - more to the point - made it rather difficult for us to effect the grand design we had in mind so that a coherent and continuous economic policy could emerge (Brown, p. 92).

In fact the continuing crisis of confidence over the first year forced the government to take deflationary steps within its first few months, and the measures which mattered lay outside the DEA's terms of reference. Moreover, Brown devoted most of his efforts from the start to securing the consensual basis for an incomes policy with the result that the gestation of even the framework of a planning programme was unnecessarily drawn out leaving the Treasury and its Cabinet spokesman, Callaghan, totally in charge of economic affairs (Crossman, Vol. I, pp. 203 and 247). In terms of changing the priorities of economic policy the DEA experiment was doomed from the very beginning.

The fate of the National Plan, published as a White Paper in September, 1965, indicated the true path of the planning programme. The Chancellor, of course, had imposed a deflationary package only two months previous in defense of a shaky pound, and more perceptive critics were already convinced that it was not worth the paper it was printed on.

The method of the National Plan followed directly that of the earlier venture of the NEDC, not much of a surprise since the staff drawing it up was virtually identical. The industrial survey canvassed a wider spread of industrial opinion, but again the "targets" were no more than optimistic assumptions about the possible growth rates of GNP, productivity, exports, etc. The document began with the usual hyperbole: "Prepared in the fullest consultation with industry, the plan for the first time represents a statement of Government policy and a commitment to action by the Government...The plan is a guide to action (p. iii)." However, the actions of the government demonstrated quite the opposite: the plan exercised no discernible influence on economic policy. Simply put the plan lacked teeth. It had no effective means of controlling or even modifying the inputs into the planning process but relied on the hope that exhortation would somehow dramatically transform the economic climate when all the government's concrete measures were working in the opposite direction. In the words of one supporter,

Far from being directive, or even indicative, it was simply subjunctive. If prices and incomes policy (which soon came to be seen, with regional policy, the main activity of the DEA and of its Minister) succeeded, and if productivity, investment and capacity all accelerated, then...But, each of these depended on the plausibility of the whole exercise, as well as being necessary conditions of this plausibility (Opie in Beckerman, 1972, p.172).

Even the theoretical aspects of the exercise lacked credibility. The input-output study which constituted the technical basis for the plan dated from 1954, hardly adequate for the task. In the judgement of one member of the staff,

We were faced with the difficult choice of either ignoring this mass of information [from the Industrial Inquiry] or of making arbitrary adjustments to final demands or to input-output coefficients, or both, to bring the model into line. We tended to do the latter except where the industrial estimates were demonstrably absurd (Lecomber in Gosling, p. 174).

Even then the DEA only had one person working full-time on such projections

and never had access to an adequate high speed computer (*ibid.*, p. 175).

Few were subsequently surprised by the formal abandonment of the National Plan in the summer of 1966 before even one year of its supposed operation. While the effort was certainly taken seriously by some in the government, the planning staff never established hegemony over the formation of economic policy. What was lacking was an overall strategy and the means for subordinating economic policy at both macro and micro levels to the plan's objectives (Opie, p. 177). When the crunch came, the defence of sterling took precedence over the strategy for economic growth. Conjunctural policy was simply never incorporated into the planning framework, just as the Treasury maintained its administrative autonomy from the planning department and ultimately recovered its unchallenged supremacy in determining policy objectives. In deference to the City, to the foreign banks and to the American government Labour deflated the economy and threw much of its social policy out the window in the bargain (Pryke, 1967, p. 21).

Despite the restrictive measures of the summer of 1965 the economy did not slow down much over the course of the next year. Labour won an increased majority in the March, 1966, election with sterling already under increasing pressure. The May budget was none the less fairly neutral, introducing a Corporation Tax at 40%, further restraint on overseas investment and its most significant aspect, a Selective Employment Tax, aimed at encouraging the movement of labour into the industrial sector. But, within a few weeks of the budget in the wake of a national seamen's strike and the return of a balance of payments deficit, the pressure on the pound intensified to crisis proportions once again. The government likewise reacted with a severe deflationary package on 20 July, restricting credit and hire-purchase, increasing taxes on consumption, cutting public expenditure and most significantly imposing a statutory wage freeze for six months. This time, however, Wilson had to overcome strong opposition

within the Cabinet, since Brown with support from Richard Crossman, Roy Jenkins, Tony Crosland, Tony Benn and Barbara Castle were now pressing for an alternative package of floating the pound with the Europeanists among them also proposing a renewed attempt to join the EEC. Wilson managed to deflect this criticism offering only two concessions: that he would reconsider the subject of devaluation if the unemployment rate rose above two per cent and that a special Cabinet committee would be formed to discuss the methods at hand, the so-called Steering Committee on Economic Policy (SEP) (Crossman, Vol. I, pp. 572-9). Wilson and Callaghan easily swung the Cabinet in support of this approach, so Brown offered his resignation, quickly withdrawn because of the effects this might have on the state of the reserves (Brown, pp. 106-7 and Brittan, 1971, p.335). The "July measures" did not immediately stem the run on the pound, which slowed down but did not stop until new central bank "swap" arrangements were announced in September. They did, however, signal the official abandonment of the National Plan, less than a year after its publication, the final nail in the coffin of indicative planning.

They likewise marked the high water point of the Prime Minister in the City of London. For, while Labour appreciated to a greater extent than the Conservatives the dilemma posed by maintaining the value of sterling on the one hand and a growth programme on the other, and consequently hesitated in imposing full-scale deflation, when the crunch came it imposed the same package in a vain attempt to support the pound at virtually any cost. Perhaps the clearest expression of the recognition of this fact on the part of the more articulate City ideologues appeared in the "Commentary" columns of The Banker in October, 1967. After listing all the "bitter pills" which the City had been forced to swallow under Labour, e.g. corporation tax, curbs on overseas investment, special deposits, dividend freeze, etc., the article went on to remark that at the

same time the relationship between the City and the government had been "relatively harmonious." It continued:

the main reason for the City's acquiescent mood is that, contrary to expectations, the government has endorsed the City's order of priorities. It has put sterling first. Many of the unpopular measures - such as the restraints on overseas investment - have been made necessary in order to achieve an overriding objective which the City also holds: the need to strengthen sterling. Furthermore, the Government has endorsed not only the City's priorities, but also, to a considerable extent, its remedies. It is true that it postponed deflation for as long as it could - thus aggravating the situation further. But, at the pinch, in July, 1966, it was prepared to be as ruthless in curbing demand as any Tory Government, and to sacrifice the National Plan and many other dear scheme besides in the attempt to cut imports by deflation (The Banker, 1967, p. 827).

The article concluded with the observation that the whole strategy had not worked and reported a survey of bankers by the magazine which found them decidedly against any move towards devaluation or import controls, preferring further deflation as the only alternative.

The City and foreign financial interests (as well as the Bank) thus remained irresolutely opposed to devaluation throughout the economic trials of the government. British finance received additional support in this from the American government and the IMF which were anxious to avoid putting pressure on the dollar. This opposition more than any other factor shaped the course of Labour policies in the 1960s, particularly when it found expression in its most vociferous and effective form, the periodic crises of confidence in the foreign exchanges which jolted and reoriented Labour policy.

Some have argued that for the first two years the government was hamstrung by its narrow majority and the impending election that could only have ended in defeat had Labour been saddled with the blame for yet another drop in the value of sterling. The Prime Minister, of course, argued virtually the opposite in the section of his speech cited at the beginning of this chapter (namely that devaluation would have allowed the government to appeal to the electorate on the basis of its reformist

principles) and based his objections on the responsibility to protect the value of the investments of sterling holders. Moreover, the failure to devalue in 1966 after Labour was returned with an increased majority puts the lie to that excuse. Nor will it do to simply affirm, as have the authors of one important study of the period, that the failure to devalue in the July crisis "is one of the major political puzzles of the 1960s (Graham and Beckerman in Beckerman, 1972, p.22)." This political puzzle has an uncanny familiarity about it. It bears the hallmarks of Labour governments before and since.

Nor did the conflicts of the 1960s over economic policy centre on the "utopianism" of Labour's ideal of planning on the one hand and the realities of power on the other, as some have argued at least with regard to earlier Labour governments (Skidelsky, 1967). For one there was little utopianism left by the start of that decade at least on the government front bench, whose programme was limited to moderate reformism and the modernization of British capitalism. If Labour's planning programme was admittedly vague from the start and a joke by the end, this was due to its essentially ideological role, its mediatory function between the demands of Labour's rank and file for socialist measures as the only basis for incomes policy, the need to appeal to a largely non-socialist electorate and the desire on the part of industrial capital for supportive actions from the state. The conflicts which shook and ultimately derailed the line of attack of the government were rather between "distinct complexes of interests, purposes and ideas," and what is almost bizarre about the conjuncture of these complexes is the close parallel with the situation of 1931. The core of opposition to devaluation (as against the government's expenditure policies in the earlier case) was once again a combination of domestic and foreign finance, together with the British and Amer-

ican financial authorities. It was they who delimited the parameters of "responsible behaviour" in 1966 as in 1931, the only difference being Wilson's ability to carry the rest of the Cabinet with him while MacDonald's acquiescence to orthodoxy proved too much for an earlier generation to swallow. The return of a similar complex of forces in the 1970s in a different economic and political climate produced an even more definitive result, a sharp turn-round in Labour policies and the virtual abandoning of Keynesianism, as we shall see, demonstrating the continuing importance of this financial block in the determination of British economic policies (Harrison, 1970, esp. p. 73).

As a result of the July measures the reformist focus of the government rapidly dissolved. One Cabinet minister has reported his feeling that there was "a complete absence of effective central control" and that Labour was "still working from hand to mouth trying to overcome the immediate short-term problems (Crossman, Vol. II, pp. 50-1)." The government in other words was simply drifting at least with regard to the key questions of economic policy. If the Labour experiment in planning was succeeding in eliminating the "stop-go" syndrome, it began to seem if this was only by wiping out the "go" phase of the cycle. Much as forecast in the earlier NEDC document, Conditions Favourable to Faster Growth, the failure to prepare a resolute programme for dealing with the balance of payments constraint meant that the government was forced to act in response to sterling crises by imposing orthodox and economically disruptive measures. When Labour did finally devalue in 1967, this action again was not so much a matter of deliberate decision in line with some general long-term programme as the only course left given the further deterioration of the economic situation.

The deflationary measures temporarily resolved the short-term crisis, and by the first quarter of 1967 the balance of payments was back in the

black. Meanwhile, Callaghan had openly converted to the Paish view of inflation, i.e. seeing it as the result of excessive demand due to overfull employment, and resolutely pressed the Cabinet to allow unemployment to rise to a level between 2.2 and 2.5% (Crossman, *ibid.*, p. 123). Brown had left the DEA for the Foreign Office once the immediate crisis had dissipated to be replaced by Michael Stewart, who proved much more malleable by Treasury forces and consequently opposed the idea of introducing import quotas when the temporary import surcharge expired at the end of the year (*ibid.*, pp. 39-40). The so-called Steering Committee on Economic Policy, set up to appease the devaluationists in the July crisis, had virtually no effect on the government's economic priorities, although by November, 1967, the continuation of economic difficulties and the aim of joining the EEC had brought about the conversion of much of the Whitehall establishment to the view that devaluation was now desirable and necessary (*ibid.*, p. 134). Outside of the Bank of England only Wilson and Callaghan remained totally opposed to the idea, by now because they had personally staked so much on the opposite course (Brittan, 1971, p. 348).

The real problems returned with the somewhat expansionary Budget of April, 1967. While the latter was officially announced as neutral, involving no net change in taxation, it allowed for a major burst of public investment and expenditure (Brittan, *ibid.*, p. 344). Yet, unemployment continued to creep upwards along with imports and visible trade returned to a deficit. Although the balance of payments had not yet recovered to surplus, the government began to introduce more expansionary measures in the summer of 1967, mainly because of increasing unemployment, against strong opposition from both the Treasury and the Bank. With the growing deterioration of the balance of payments from the middle of the year, the Labour leadership reopened discussion in Cabinet of various alternative courses, including import quotas or special deposit schemes, and by October the Treasury and the Bank began to work out a contingency

plan for devaluation.

If by mid-summer 1967 devaluation was inevitable, this did not preclude hesitation until the last possible moment, when the circumstances of yet another sterling crisis virtually dictated the government's course of action. By the first week in November with the pound under unrelenting pressure Labour's leaders finally committed themselves to devaluation, and messages canvassing support were sent to the "Praetorian Guard of the international monetary system:" Pierre-Paul Schweitzer, Managing Director of the IMF, F. Beving, the US Under-Secretary of the Treasury, E. van Lennep, Netherlands' Finance Ministry, Dr. O. Emminger, German Bundesbank, and Sr. Ossola, Bank of Italy. Some of these responded favourably to the idea, but others, especially the Americans, wanted to extend further credits in support of the existing parity. By Monday, 13 November, rumours of further stand-by credits stemming from a meeting of central bankers at Basle fuelled renewed speculation which ripped through the sterling markets on Thursday afternoon (following the Cabinet's unannounced decision to devalue as of Saturday evening). Final efforts by the American authorities to raise supporting credits were by this time to little and too late, and the decision was subsequently announced on Saturday, 18 November, backed by £3,000m in stand-by credits, nearly half of which came from the IMF. Treasury and Bank demands for a full-scale deflationary squeeze to accompany devaluation were rebuffed by the government, which announced instead moderate increases in hire-purchase controls, a hike in Bank rate from 6.5 to 8%, promises of cuts in public expenditure and a slight increase in Corporation Tax to sweeten the pill for the unions (Brittan, *ibid.*, pp. 357-63). Even temporary import controls, one should note, were not included in the package, although they had been discussed in Cabinet for over a year.

Thus, devaluation had been forced on the government in circumstances

that were hardly of its own choosing, for by now devaluation could no longer act as a substitute for measures to hold down consumption. The Chancellor continued to oppose the idea of devaluation right up to the very week before the decision was finally made. Even then he saw it only as a means of imposing a deflationary package which would "teach the people of this country what a fools' paradise they've been living in (Crossman, Vol.II, p. 569)." By this point he, too, was in the grips of that peculiar perversity that has afflicted all Labour Chancellors from Snowden through Cripps up to the present, whereby their only pleasure comes from lashing their supporters with the harshest possible policies. Yet, if Callaghan at least recognized the decision to devalue as a personal defeat and tendered his resignation before the end of the month, the Prime Minister found no such scruples in his own conscience and promptly converted to the notion that devaluation would provide the space for further economic expansion. This was of course ruled out by the economic and political conjuncture that now engulfed the Wilson government. Labour introduced a massively deflationary package in the Budget of March, 1968, a policy which continued, though less severely through the following year. Yet, even with continued deflation more or less from the summer of 1966 up through the winter of 1969-70, the current account did not return to surplus until the beginning of 1969, indicating the scope for readjustment necessitated by years of an overvalued pound. The cost of maintaining parity was necessarily very high. As indicated above not only was the planning programme (for what it was worth) sacrificed on the altar of sterling, but the whole range of social welfare measures had to be jettisoned in the bargain in the effort to retain the confidence of particularly financial capital. The subsequent defeat in the general election of 1970 can likewise be laid at the feet of this unflexible stand against any breach of financial orthodoxy, for Labour in the end had to diobey the

basic rule of post-war electoral politics: don't go to the hustings until you have financed a major domestic boom (Beckerman, 1972, Intro. & Ch. 1).

An additional and by no means inconsequential result of Labour policies was the increasing intervention of international financial authorities in the direction of British economic policy, particularly in the form of the IMF, a feature which grew in importance in proportion to the disintegration of the Keynesian programme in the 1970s. The loan floated in the devaluation of 1967 necessarily entailed various conditions, laid out in a Letter of Intent on the part of the Chancellor. This included the deflationary measures designed to hold down consumption and make room for "export-led growth" that were implemented in the 1968 Budget. It likewise ruled out the imposition of further controls on foreign exchange or imports and, indeed, pledged the government to remove existing controls as soon as practicable (Letter of Intent, Hansard, Vol. 755, cols. 649-51). More ominously, to work effectively this approach required some form of wage restraint, which implied, as the Prime Minister later expressed it, "an incomes policy which by the very nature of things requires statutory backing (cited in Panitch, 1976, p.150)." This in turn, as we shall see shortly, had serious ramifications for the relations between the unions and the Labour government, as it led ultimately to intensified efforts to control the cost of labour in the absence of control over any other factor. Of even greater significance in the long run, however, was the letter of Intent secured by the IMF when the 1965 credits came up for renewal in May, 1969. For this stipulated for the first time a ceiling on domestic credit expansion of £400m for the coming financial year, thus marking the turn towards monetarism that gathered momentum in the following decade, especially when Labour again had to turn to the IMF for further

financial support (Brittan, 1971, pp. 165-7 & 396).

One should not overemphasize the extent to which the IMF played a coercive role, dictating the terms of credit to an abdurate social democratic government committed to a course of social reform. For clearly there was plenty of support for such measures, not only in the expected quarters of orthodoxy, the Treasury and the Bank of England, but also within the Cabinet (Panitch, op.cit.). The IMF has often appeared as a convenient whipping boy taking the blame for unpopular policies in recent experience, even though those at the helm of state were in essential agreement about the need for a nasty dose of deflationary medicine. At the same time the government had succumbed to almost total paralysis by the winter of 1968, as devaluation was followed by continued balance of payments problems, pressure on sterling and rumours of a second devaluation, a state of collapse which left Labour little choice but to follow the course charted by the constellation of interests centered on financial capital. The situation at the time (March, 1968) is perhaps best expressed by the "conscience" of the Cabinet, Richard Crossman:

I've never felt a greater sense of this Government's impotence than I do now. The question whether we devalue again or not is entirely determined by whether the Americans will let us have the cash to sustain the policy they want without forcing devaluation on us. That's our situation two days ahead of a budget in which Roy [Jenkins] will ask for immense sacrifices in order that this Labour Government can at last get a firm control of the economy. The truth is that we shan't get control of the economy (Crossman, Vol. II, p. 717).

One major reason for the continuing edginess of the pound (apart from the balance of payments deficit) was the run down of the sterling balances by official holders from sterling area countries. The latter had been badly shocked by devaluation, and between March and September their balances decreased by some £312m in the attempt to diversify into other currencies as a hedge against future devaluation (B. Cohen, 1971, pp. 77-9). The increasing volatility of even such official holdings prompted

the government to secure some sort of international funding as an incentive to retain sterling deposits despite such fears. The result was the Basle agreement arranged through the Bank for International Settlements in the summer of 1968. This provided a \$2,000m stand-by credit from the major central banks to finance any further withdrawal of sterling-area balances whether private or official. It likewise guaranteed the dollar value of a portion of such holdings against devaluation provided that the participating countries agreed to maintain a minimum percentage of their total reserves in sterling. This effectively curtailed and reversed at least the short-term outflow of such funds through the establishment of a medium-term funding facility at potentially a serious cost to the UK economy. However, it also signalled the continuing commitment to maintain an international role for sterling as a reserve currency at least as far as the Treasury was concerned (U.K. Treasury, 1968, esp. p. 7 & B. Cohen, *ibid.*, pp. 150-60 & 222-33).

The eventual devaluation of the pound in November, 1967, thus actually reinforced the position of international finance. While over the course of the 1950s short-term borrowing from the IMF and other international agencies had been liquidated fairly quickly, during the sixties the almost permanent deficits in the external account made this impossible. The debacle began with the initial drawing from the IMF in the 1961 crisis. Much of that was paid off in the following year, but from 1964 debt built up steadily. The government borrowed again from the IMF to the tune of £357m in 1964, £500m in 1965 and £44m in 1966, while a stand-by credit for \$1,400m was negotiated in the period right after devaluation (Pollard, 1969, p. 457). The cumulative total of these as well as other drawings from the various central banks reached a peak of £3,600m in 1967-8. The advance consultation with the forces of international finance in the crisis preceding the belated decision to devalue indicated as much as anything

the new influence they exercised over the direction of economic policy. Afterwards, when stand-by credits approaching \$3,000m had to be negotiated, the influence of the IMF was expressed not only in the original Letter of Intent of 1967 but in the subsequent statements of 1968 and 1969 when the terms of the credits had to be renewed. Together these entailed not only cuts in existing and planned public expenditure throughout Labour's remaining years in office but precluded other policy options such as import controls which might have allowed for a greater degree of domestic expansion (see above and Crossman, Vol. III, pp. 502 & 539-41).

In summary, Labour's planning programme was a singular failure in virtually every aspect. The government could not or would not reverse the priority given to sterling and the role of the City in the British economy. It was unable to extend planning in any sense beyond the limits set by the previous Conservative government, i.e. voluntarism, at least as far as capital was concerned. The DEA never established hegemony over the policy-making process, and consequently its credibility not to mention that of the whole notion of planning had effectively sunk before the first two years of the government were completed. The DEA paid its last respects to planning with the publication of The Task Ahead in 1969. Its demotion from White Paper to Green Paper symbolized what had been a matter of fact from the outset: that the government had never pushed the plan seriously but had rather exploited it for other ends (securing the co-operation of the TUC in an incomes policy) and that the planners had no real control over the state machinery, let alone the economy, in any case. By this point the actual policies of the government, continued restraint in order to divert some 3% of GNP into reviving the balance of payments, made a mockery of the document even as a public relations exercise. This is not to say that the government had a choice in the matter if it wanted to retain foreign credit but rather that its continuing efforts to placate the

bankers had led it to the point where no other options were available. As Labour wound up the DEA in October, 1969, the Treasury published the final epitaph to indicative planning the following spring, Economic Prospects to 1972 - A Revised Assessment (U.K. Treasury, 1970). As in the case of The Task Ahead the Treasury Green Paper did not proport to be a plan but rather "a basis for forward planning and decision-taking both by Government and industry (pp. 1-2)." Parallel to the experiment in "democratic planning" in the 1940s, the use of terms like "targets" in The National Plan was dropped in these latter two documents in favour of "prospects" and "projections." The only difference between the Treasury and DEA Green Papers was that the former scaled down even further the expectations as to future growth of GNP, productivity, etc.

Rather than breaking out of the stop-go syndrome of the Tory years, Labour found itself at the end of its term having pursued almost continual restraint from the first year in office, presiding over an economy with increasing slack between potential and actual output and the highest level of unemployment since the Second World War. Far from initiating an era of a high-wage, high-growth economy as the basis for a programme of social democratic reforms, Labour was now saddled with an enormous debt to overseas finance with little room for manoeuvre or reform of any kind. Disillusionment with even the basic methods of Keynesian demand management began to set in with the realization, as expressed in one major study, that over the course of the 1960s as with the previous decade, "budgetary policy...has been destabilizing, in the sense that growth would have proceeded more smoothly in the absence of discretionary tax changes (C.D. Cohen, p. 68)." Virtually, the only area in which the planning programme achieved a degree of "success" was that of incomes, or more appropriately wages, policy, to which we shall now turn.

Incomes Policy and Relations with the TUC

If Labour's relations with capital were set by the limits of voluntarism and by the effective veto of the City such was not the case with the trade union movement. For increasingly throughout the period the inability of the government to introduce an economic plan in any sense led to the substitution of progressively more severe controls over the one area where it could act directly without incurring a major crisis of business confidence, namely wages. The model of voluntaristic corporatism was breached only with regard to those who supposedly formed the backbone of Labour's support, and the efforts in this direction served mainly to precipitate a serious break in the relations between the Party and the unions, the effects of which have continued to reverberate up to the present. Since the politics of incomes policy have been analyzed in depth elsewhere, I shall only outline the major events in so far as they related to the rise and fall of indicative planning (see Crouch, 1977, Panitch, 1976, Mitchell, 1972, and Fels, 1972).

As indicated above a national incomes policy of some kind was the chief assumption of both the NEDC and DEA plans. Productivity agreements had previously come into fashion as a means of tying wage increases to the rise in productivity at a micro-economic level, of relaxing job demarcation practices and of securing a "radical approach to the problem of systematic overtime (Flanders, 1964, p. 14)." The logic behind the approach to incomes policy was quite simply to use the same basis for negotiations on a macro-economic level. The central problem with a national wages policy was that it required at least the co-operation of the union leaders if not their active administration if it was to have a degree of success. Here of course Labour was much better placed than the Conservatives, but even Labour was unlikely to win support for a simple package of wage restraint. Much as in the case of the plans for post-war reconstruc-

tion the key appeared to be to link the agreement for restraint and the relaxation of shop floor controls with a general commitment to faster growth and hence higher real wages in the long-term. Thus, from the beginning the policy on wages was closely linked to the planning programme. Indeed, there is substantial reason for viewing the latter as little more than a public relations exercise which was taken seriously by the government only so long as and in so far as it might assist in this central aim. In the words of one protagonist of Labour planning,

The unions will not co-operate in what they, and their members, recognize as wage restraint, but if it can be wrapped up as a 'planned-growth-of-wages,' they may be prepared to help the government (Denton, 1965a)...

The necessity of the linkage between incomes policy and planning was, moreover, underlined by the 1964 TUC, since it explicitly opposed wage restraint at the same time that it supported incomes policy within the framework of a planned economy and the extension of public ownership (TUC, 1964 Report, p. 446).

The efforts of George Brown on the wages front proved initially much more successful than in other areas of the planning programme. By December 16th, 1964, he managed to get the representatives of the TUC as well as those of the major employers' organizations (the CBI had not yet formed) to sign a "Joint Statement of Intent on Productivity, Prices and Incomes." This included a pledge "to take urgent and vigorous action to raise productivity throughout industry and commerce, to keep increases in total money incomes in line with increases in real national output and to maintain a stable general price level (reprinted in Brittan, 1971, pp. 316-7)." From that point onwards developments in incomes policy progressed in proportion to the setbacks in indicative planning. Within four months the government had published two White Papers on the subject, Machinery of Prices and Incomes Policy in February, 1965, and Prices and Incomes

Policy in April. These set up the National Board for Prices and Incomes as the vetting agency for what was still at this stage a voluntary policy on the basis of a norm of 3 to 3.5%. To head the organization the government chose Aubrey Jones, a Conservative, whose corporatist outlook is perhaps best expressed in a statement from the previous decade: "[union] irresponsibility can be overcome only if Labour is made to feel that it has the same purpose as capital, and that, while they remain rivals, their rivalry is subordinated to a unity (cited in Panitch, 1976, p.76)." The politics of the NBPI's Chairman were likewise reflected in the ideological position of the organization itself, as it persistently voiced a managerial perspective in framing its judgements in terms of 1. an administrative rationality, 2. a monistic view of corporate hierarchy, and 3. an insistence on managerial control over the production process (Grouch, 1977, pp. 123-8).

By the summer with mounting inflation at home and the first of the sterling crises, the government began to press both the TUC and the newly formed CBI to approve statutory controls. The General Council eventually relented after protracted negotiations and managed to win narrow support for their actions at the autumn Congress. In November a third White Paper, Prices and Incomes Policy: Early Warning System, outlined the new approach. The TUC had now directly involved itself in policing the wage claims of its constituent unions through the "early warning system," although it had no means of legally enforcing sanctions against those who transgressed the norm. The CBI on the other hand eschewed any such involvement in the prices policy, and, indeed, the White Paper made no attempt to extend the system to all prices, restricting it rather to consumer and public sector goods and services. Thus, even at this stage the degree of "voluntary compulsion" was more strict on the side of labour than that of capital, a basic asymmetry that continued throughout Labour's term in power.

The July crisis of 1966 ushered in the next phase in incomes policy,

namely a six-month statutory freeze in wages followed by six months of "severe restraint" with similar controls applied to prices and dividends (Prices and Incomes Standstill). In the same blow Labour had not only announced the end of planning but had abrogated every basis on which voluntary incomes policy had been agreed with the unions, i.e. full employment, planning, tripartite negotiations and voluntarism (Panitch, 1976, p. 116). The TUC expressed its regret over the introduction of these policies but nonetheless continued to co-operate and even administer the freeze throughout its duration. The CBI was much less acquiescent with the end result that wage rates remained static in the period between July and December and actual earnings increased by less than 1/2%, while the retail price index rose by over 1% (ibid., p. 129).

The period of severe restraint following the six-month freeze witnessed increasing tension between the government and the labour movement. The government continued the zero-norm policy excepting only the low paid and "genuine" productivity agreements but left the NBPI in charge of vetting any such exceptions. Given the pro-business politics of the organization it refrained from setting any minimum figure for wages, choosing instead to deal with low-pay claims on a case-by-case basis. The demotion of the low-pay criterion by the Board corresponded with an increasing emphasis on productivity as the only basis for exemption from the norm. Yet, despite the severe nature of the policy, earnings began to rise in the second quarter of 1967, increasing a total of 6% over the year compared to only 2.5% for retail prices (Leruez, p. 200). If the end result of the wage freeze augured ill for Labour, the attempt to spread the responsibility for the policy by reviving tripartite negotiations fared no better. By this point rank and file hostility to wage restraint was affecting even the upper echelons of the TUC, and the latter refused

to be drawn into belated support for the government's unilateral action (Panitch, 1976, p. 131).

By the time of the September, 1967, Congress the General Council could no longer hold the line against the widespread opposition to its accommodative relations with the government. It consequently did not even attempt to oppose motions calling for repeal of the existing Prices and Incomes Acts. However, when it did attempt to stop another motion condemning Labour's deflationary measures and appealing for an extension of public ownership as the basis for future economic planning, it was defeated on the floor. At the Labour Party Conference a month later the government won only the narrowest majority in support for the continuation of statutory powers over wages. Thus, even before the devaluation in November the incomes policy was showing signs of total breakdown with the trade union leadership moving rapidly to the left of the Parliamentary Party (*ibid.*, pp. 146-8). Nonethe less, the government remained resolutely committed to wage restraint backed by statutory powers, a position reinforced by the intervention of the IMF in the course of devaluation, as noted above.

The General Council supported devaluation and was even prepared to accept wage cuts as a means to solve the balance of payments problem. However, that was the limit of its accord with the government's policies by the beginning of 1969. In March it issued its first Economic Review, a comprehensive document which far from backing further deflation called for the development of a new national plan and a revived programme of income redistribution (TUC, 1969). Thus, even though planning was more or less abandoned by Labour and had lost favour with virtually everyone else, the TUC retained its commitment to the programme, largely because it offered the only alternative to deflation and continued wage restraint. Unfortunately for the unions, planning was now a dead issue, and the only

alternative policies which might have offered some relief from the balance of payments pressure without deflation, namely import and exchange controls, were ruled out by the terms of agreement with the IMF.

The thrust of the government's economic policies, i.e. the attempt to substitute deflation and statutory wage controls for economic planning, led it in an ever more pronounced state corporatist direction with regard to labour by the latter stages of its term of office. For with the "wage explosion" that heralded the disintegration of its incomes policy, Labour turned increasingly towards legal controls over the unions in an attempt to centralize collective bargaining and curb rank and file wage militancy. While the Donovan Report was an ambiguous landmark in that it did not recommend any extension of statutory controls over the unions, Labour went beyond these recommendations with the publication of In Place of Strife. By the end of 1968 it became clear that incomes policy was no longer tenable given the overwhelming hostility of the trade union movement. Consequently, the government began to look for an alternative means of reinforcing its relationship with the TUC leadership, namely legislation aimed at reinforcing the control of the latter over the rank and file and limited the right to initiate strikes from the shop floor. While it did not represent a complete reversion to state corporatism, e.g. by transforming the unions into state agencies with monopolistic and compulsory powers, In Place of Strife, certainly took more than a few steps in that direction. For a key element in the proposals was the offer of a Commission on Industrial Relations to facilitate the extension of collective bargaining and the development of "procedure" as the quid pro quo for union registration, restrictions on inter-union disputes, ballots for official strikes and a legally backed "cooling-off period" for unofficial stoppages (Industrial Relations Bill, 1969). These proposals thus rep-

resented, as Crouch has argued, a transitional stage, paying lip service to liberal collectivism, (by recognizing industrial conflict as inherent and the necessity for independent trade unions), while at the same time claiming that the existing situation called for the reinforcement of the government's objectives with statutory measures. (Crouch, 1977, pp. 163-6). In any event the total opposition of the General Council and union militants to the proposals ensured that Labour remained within the limits of voluntaristic corporatism. For in return for withdrawing the Bill the TUC pledged to exercise its own authority in limiting unofficial disputes.

Thus, the attempt to impose wage restraint from above with or without the co-operation of the trade union movement brought Labour to the edge of breaking with the politics of voluntaristic corporatism. Such was not the case in the relations between the government and capital where coercive measures were limited to the six-month price and dividend freeze following the July crisis of 1966 which were of course imposed in the course of attempting to meet the priorities of financial capital. Labour would not or could not envisage any extension of state direction over capital beyond the limits of indicative planning (with the partial exception of the re-nationalization of steel). The effective collapse of the latter given the continued hegemony of finance over the policy-making process left the government with little choice other than clamping down on its ostensible supporters even to the point of a complete breakdown in relations with the unions. The TUC none the less remained committed to the planning programme more or less in the original form of 1964, i.e. on a voluntaristic tripartite basis, as the only alternative to wage control and deflation, or even worse. The unavoidable contradiction of this attempt to maintain an accommodative position vis-à-vis the government was, as Panitch has forcefully argued, that, "it committed the TUC to operating an incomes policy in the context of a total economic policy which the TUC did not have the

means to effect by itself (Panitch, 1976, p. 150)."

Given the hostility of industry to any extension of statutory controls over capital and the ability of finance to block and reverse any policy which remained within the voluntaristic framework, the TUC and the union rank and file could do little but resort to negative reactions, condemning the continuation of incomes policy and refusing to co-operate with the legal intervention in industrial relations, while pursuing wage militancy at the base. By the end of the 1960s the collapse of incomes policy and the turn towards statutory controls over the unions indicated the complete failure of the government to widen the spielraum of the state's field of action with regard to labour, just as the earlier demise of indicative planning demonstrated the effective limiting power of capital. Only the assumption of statutory powers could widen this room for manoeuvre in one direction or the other. That Labour chose to act against the unions in line with the priorities of capital, especially finance, demonstrated the continued hegemony of the latter over the machinery of the state. However, the ability of the unions to block at least the extreme implications of such a move indicated their not insignificant strength, albeit most effective when expressed in a negative fashion, protecting existing rights rather than imposing its own economic and social programme on the government.

Neddy and Relations with the CBI

The role of the NEDC has not come into the discussion so far for the simple reason that it was largely eclipsed with the formation of the DEA, but it retained at least an ideological function throughout the period. As discussed above the planning function of Neddy had largely been taken up by the DEA, yet both the CBI and the TUC wanted to maintain it at least as a forum for discussions on economic policy. The Wilson government was likewise anxious to encourage a favourable envir-

onment for a "managed consensus," i.e. prevail upon the unions to accept the need for an incomes policy in return for the commitment to faster economic growth. The NEDC, while no longer involved in the actual writing of the plan, still served as a sounding board and a source of necessary information about industrial plans. If the removal of most of the planning machinery indicated the étatist bent of Labour in comparison to the Tories, the retention of the Council demonstrated the continued emphasis on producing under state guidance a consensus on the national needs of industrial capital and the organized working class, i.e. the orientation of Labour towards the politics of a "producers' alliance."

The director of NEDO for most of Labour's term of office, Sir Frederick Catherwood, was the prototype of the progressive industrialist. A "Christian socialist" and long-time promoter of such causes as scientific and professional management, technical education, rationalization and increased industrial investment, he strongly backed virtually every aspect of the planning programme. (Catherwood, 1966). His ideological background led him to promote corporatist solutions with a strong managerial flavour as the answer to the problem of industrial retardation. Under Catherwood the prime role of NEDO was to build an industrial consensus between capital and labour on the basis of a high-wage, high-growth economy, or in his own words, "NEDO's job is to influence the climate of opinion." Clearly, as far as he was concerned, this meant primarily combatting certain notions pervasive in the world of capital that a fixed relationship held between unemployment and the rate of wage increases, a view which "tended to put the country's very powerful financial and banking interests, together with a good many influential economists, against the whole notion of encouraging the economy to grow faster than the historic trend (Catherwood, 1971, p. 6)." At the same time Catherwood continued to propagate the case that "we need a much higher rate of in-

dustrial investment with a much higher rate of replacement of obsolete plant, and that without this we are unlikely to hold our share of world trade, let alone regain any trade we have lost (*ibid.*)."¹⁰ Moreover, in his view measures to boost home investment and remove the balance of payments constraint had to include restrictions on overseas investment and government spending abroad (Catherwood, 1966, pp. 123-4).

Neddy in other words developed in this period as an agency for promoting a social contract between labour and industry centred on the intertwined objectives of increased investment and the restraint of wages to the average growth of productivity. Of course the actual trend of the government's policies rendered most of this effort on the ideological plane totally futile. Neddy's effectiveness as an agency for consensus management diminished once Labour devalued tripartite negotiations and resorted to unilateral and statutory action on incomes and prices in the wake of the 1966 crisis. By 1968 the TUC had come to the conclusion that the NEDC "no longer appeared to be fulfilling its original functions and was being used more as a sounding board for Government policies (cited in Panitch, 1976, p. 152). Yet, despite Labour's inability to take up its "historic task" as the promoter of the producers' alliance, the work of the NEDC did have some lasting significance, mainly, as we shall see, in preparing the ideological ground for another assault on financial interests.

The Economic Development Committees, or so-called Little Neddies, similarly picked up much of the work in the ideological realm. They had also been introduced under the previous Conservative government but were modelled on the Development Councils that the Attlee government had hatched in the 1940s. But, whereas the earlier institutions had sprung from the war system of "supervised self-government," the EDCs served more as a connecting link between branches of industry and the state. At the same

time they differed from the prevailing form of state-industry linkage, the so-called sponsorship network, on several points. In the first place they included trade union representation, even if in a subordinate role. Unlike the NEDC the trade unions were clearly under-represented in comparison with industrial capital in the EDCs: 45% of the members of the latter were industrial managers, 23% "industrial experts," and only 20% union representatives, leaving 12% as the direct representatives of the state, but all of whom were appointed by the Director-General of the NEDC after the appropriate consultations (Leruez, pp. 147-9). The corporatist character of Neddy emerged most clearly in the EDCs, where the domination of the industrialists was secure along with, it was hoped, the co-operation of labour. Of course the latter could not be expected to be terribly concerned with the efficiency of the production system without corresponding measures to ensure full-employment and faster growth. As one observer put it,

The early co-operation of the trade unions in the EDC system had, to a large extent, been obtained because of the initial emphasis on planning. When this was dissipated, the trade unions began to lose interest (Vaughan, p. 380).

Secondly, the EDCs were distinguished from the sponsoring departments in that they established a regular and formal link between industry and the state, rather than relying on the intermittent and informal contact that had characterized the 1950s. Thirdly, they were entitled to discuss a whole range of issues and problems concerning each particular branch of industry instead of being limited to some specific problem stemming from Whitehall policy. The sorts of issues that the Little Neddies dealt with most often, the use of labour and the development of substitutes for manufactured imports, fell outside the scope of a sponsoring department. In a word the role of the EDCs in the planning process was to develop a "sense of responsibility" on the part of the unions and the state under the direction of leading industrialists. At the same time

they served as an important aspect of the propaganda drive against the ideological domination of finance, attempting to integrate the two Sozialpartneren in a national drive for improved competitiveness, growth, efficiency and productivity (Fraser, pp. 163-4).

To put it in terms of my general analysis the EDCs attempted to rationalize the supportive function of the state by giving direct representation to industrial managers. In this way their needs could be met or at least articulated without the cumbersome and tenuous mediation of political parties and the Parliamentary process. While the Conservatives may be the party preference of most businessmen, the fact that they can be and are voted out of office necessitates the regularization of contact between industry and the state, whatever party is in government. The fact that Parliament only controls the state in the most formal and limited sense means as well that direct links with Whitehall are imperative, particularly given the scope of state intervention and the portion of the national income diverted through the fiscal system in the years since World War II. And, the impetus towards planning state activity and expenditure, towards relating the whole process of state intervention to the needs of a capitalist economy under intensified international competition and to the needs of an industrial sector badly wanting both reorganization and an increased level of investment, likewise reinforces the aim of ensuring that the actual articulation of economic policy comes under the hegemony of industrial capital.

The Wilson government, like that of Attlee, was only too ready to oblige. While in 1945 Labour had attempted to institutionalize the programme of "democratic planning" by retaining the war-time administrative machinery manned largely by corporate leaders and develop the new Development Councils on a voluntary tripartite basis, in 1964 it attempted

the same by continuing the quasi-state agencies set up under the Conservatives after the industrial initiative. The hope here was to maintain the confidence of industry by ceding control over at least the informational inputs into the planning process, by allowing industry a direct means for expressing the various needs of its different branches, for establishing a consensus on those needs with the suitably vetted representatives of organized labour and for relaying that consensus to the planning authorities.

The domination of industrial capital in the EDCs was reflected in the reports produced in the late sixties and early seventies. These focused on the means for improving productivity, raising and improving investment, import substitution and increasing market share. In so far as they dealt with labour problems, they were by no means anti-union, but framed their considerations within a managerial perspective. Thus, labour matters were included in terms of reducing the cost of labour turnover, improving procedure in order to prevent industrial disputes and rationalizing the structure of union (and employer) organization in order to eliminate fragmentation and overlapping (EDC for Building, 1968, EDC for the Rubber Industry, 1968a & b, & EDC for the Electronics Industry, 1970). While most did not comment on government policy directly, one consumer goods industry did complain about those aspects which it felt to be directly discriminatory against its products, e.g. taxation and the variability of demand, as well as about the need to recognize the requirement for "a sufficient rate of return on capital" as a basis for future growth (EDC for Motor Manufacturing, 1968). If the work of the EDCs had little effect on government policy, they at least represented the symbolic continuity of the "producers' alliance" programme. The studies also convinced at least Catherwood that an acceleration of the growth of productivity was possible and that there was an urgent need for increasing

"direct productive investment" by at least £250m per year (Catherwood, 1968). The EDC studies also kept alive the notion of planning or at least "comprehensive consultations with industry", since they served as the basis for the final document of the Labour years, Economic Prospects to 1972, after the DEA itself had been wound up. (UK Treasury, 1970).

The NEDC also began to turn much of its attention towards the ways of increasing industrial investment over this period. This process had begun under Sir Robert Shone, whose involvement in NEDC in the early years of the institution had reaffirmed his view that low investment was a major reason for declining British competitiveness (Shone, 1966). The National Plan had put investment "at the heart of the plan" and had forecast a needed rise of 50% between 1964 and 1970 in manufacturing if the plan's targets would be met. In fact The Task Ahead and Economic Prospects to 1972 revealed that manufacturing investment had risen by only 13% between 1964 and 1966, had fallen by 5% in 1967 under the impact of the deflationary measures of the previous year and only began to rise again after devaluation, ending up in the second half of 1969 some 18% higher than in the second half of 1967. The latter document pointed out that the possibility of increasing the rate of investment in any permanent sense did not seem very good, as "The EDC reports are not generally very buoyant about the medium-term prospect, and experience of past cycles would in any case suggest a slowing down in 1971 after two years of rather fast growth (U.K.Treasury, 1970, p. 17)." The EDC reports had singled out expected growth of demand as the crucial variable in investment decisions and underlined that in those industries with a long planning period like chemicals and motors, "most decisions affecting the period to 1972 have already been taken (ibid.)." As a result of these findings the government had to recognize "the importance for industrial investment of an adequate cash flow and [would] continue to have this in mind in developing their monetary and

credit policies (*ibid.*)."¹ However, increasingly from the mid-sixties Neddy began to look at constraints on the supply side of investment as well. Its Investment Appraisal pamphlets publicized the utility of discounted cash flow techniques in part because "as a result of the use of faulty methods of appraisal, investment decisions are made over-cautiously (NEDO, 1967)." A few years later these efforts would culminate in the production of a major study of investment, the conclusions of which were implicitly critical of the relationship between the financial and industrial sectors, i.e. the dominant position and caution of the former, as we shall see in the following chapter.

This whole effort to secure the hegemony of industrial capital was frustrated, however, by the actual lack of a planning authority with any real power, or alternatively by the fact that the issue of political power was never faced squarely. The idea behind the NEDC and the EDCs was that the co-operation of the unions with industry could be secured through political collaboration on national economic goals, i.e. restructuration of British capitalism so as to better compete in the world market and thereby improve the standard of living and social welfare in a regulated manner. But, the failure to take the basic steps to begin to meet these objectives, the inability of Labour to create effective planning instruments, eroded the basis of possible co-optation as well. As a result Labour turned the guns back on the unions. Its acceptance of orthodoxy in economic policy paralleled its commitment to the political status quo, the domination of financial capital in the power block. This in turn led the Labour leadership to think of its task less in terms of presiding over an economic and technological revolution than in terms of rolling back working class power, especially at the point of production. The role of financial crises, that is the structural as well as the ideo-

logical position of financial interests, obviously played a key part in reorienting Labour away from its professed programme towards the bankers' view of salvation, deflation and statutory wage freeze in defence of parity and the international role of sterling. Nedd's function as the ideological prop for class collaboration on "both sides of industry" was largely eroded by the devaluation of tripartism and the abandonment of the planning programme. It none the less continued in more or less its original role as a "pressure group" for growth with some success, given its total lack of any substantive influence, at least in the sense that it outlived the DEA and continued to propagate the case for higher investment and growth and closer consultation with industry even after the return of the Conservatives.

Relations between the CBI and the government remained on the whole amicable throughout the period. Industrialists of course had initiated indicative planning in the early sixties, so they could hardly renounce it completely just because of a change of government. Yet, there was a certain ambiguity in the considerations of planning under Labour by the time of the second "Next Five Years" Conference at Eastbourne in January, 1965 of the BEC, the FBI and the NABM. Discussions at this meeting saw a partial revival of industry's priorities of the previous decade among some sections of the Conference. The group investigating fiscal, monetary and general economic policy pronounced that "The first aim of the nation must be to live within its means both nationally and internationally (FBI, BEC & NABM, 1965, p. 16). It likewise emphasized the need for stable prices, reduced public expenditure and the advantages of "London's position as world banker" and condemned any extension of public ownership (ibid., pp. 16-19). The group considering labour issues underlined the necessity of keeping wage increases in line with productivity and called for the reform of trade union structure, "particularly moves towards in-

dustrial unionism," as well as legal sanctions to enforce collective bargaining agreements (*ibid.*, p. 32). The group on economic planning similarly declared that "inevitably we place the greatest emphasis on the balance of payments," but at the same time it concluded that "planning can continue to make an important contribution to more rapid growth in the future (*ibid.*, pp. 20-1)." So despite various reservations stemming essentially from the previous negative experience of the NEDC project and no doubt fears of Labour using planning as a technique of "back door nationalization," industry retained a commitment to planning in some sense so long as it remained free of statutory controls and the extension of public ownership.

The CBI'S continued support for the planning exercise was likewise reflected in its enthusiasm for both the formation of the IEA and the National Plan. George Brown's active courting of industry was no doubt a major factor in winning their favour not only for the "Joint Statement on Prices and Incomes" but throughout the first two years of the government. As Lord Stokes, Managing Director of BLMC, and a member of the Industrial Reorganization Corporation, later remarked,

We can never forget what that man did for us. He launched the prices and incomes policy and as long as he was there we believed in it and we believed in the Labour Government. He made all that difference to you (*Crossman*, Vol. II, p. 546).

So long as Labour remained within the framework of voluntaristic corporatism and offered the real possibility of a consensus with the TUC on incomes restraint and economic growth, it retained the active co-operation of industrial capital, including "voluntary restraint" of prices, although, as noted above, this did not include the actual vetting of price increases by the CBI.

The measures following the July crisis of 1966 did lead to some friction with industry, but this did not proceed to the brink of total

rupture as with the unions. Once again it was the spectre of public enterprise which caused the greatest concern. Following the renationalization of steel and the setting up of the Industrial Reorganization Corporation a small group, including Sir Paul Chambers and Arthur Shennfield (again), attempted to establish an alternative line within the CBI. The Industrial Policy Group, as it was christened, published a number of pamphlets attacking public expenditure, high taxation, calling for greater profitability and basically extoling the virtues of an uncontrolled market economy (IPG, Nos. 1, 2, & 3). However, this group would have to wait for the 1970s for its ideas to come back into fashion, for the CBI maintained friendly, if less than enthusiastic, relations with the government throughout its term of office (Blank, p. 233). If it was uneasy about the introduction of statutory incomes policy, even though this obviously violated the principle of voluntarism, the effectiveness of the freeze in holding down wages quickly assuaged any fears at least for the short term. By 1968 the CBI was calling for reinforcement of statutory controls, and with the lapsing of the latter in 1969 it only reluctantly returned to the tripartite formula (CBI, 1968 & 1970). In so far as it became thoroughly disillusioned with Labour, this mainly concerned the failure to pursue legal reform of industrial relations, which the CBI supported whole-heartedly (ibid. & Crouch, 1977, pp. 227-8). If its enthusiasm for planning had waned over the course of the 1960s, this had not as yet led to a complete return to the hands-off relationship with the state of the early fifties nor to the embrace of pure and simple monetarism.

Restructuring Capital

After 1966 the National Plan can hardly be said to have had any influence on economic policy. Following the logic of orthodox demand management the government simply moved from crisis to crisis giving another

twist to the deflationary screw with each new sign that the balance of payments had not yet recovered. Consequently, the activities to restructure capital proceeded on an ad hoc basis without the guiding framework of the planning programme, but they did proceed. The two major arenas of restructuring were in industrial and regional policy, that is particular policy outputs aiming at sectoral change (increasing export competitiveness in manufacturing) and locational changes (funnelling new investment into declining areas to achieve more balanced regional growth and relieve the pressure on skilled labour markets in some areas).

The most important innovation in industrial policy at this point was the creation of the Industrial Reorganization Corporation (IRC). This institution has been most aptly described as a state merchant bank, its character illustrated by the economic links of its leadership. Its first Chairman was Lord Kearton, a member of the NEDC and head of Courtaulds, while Ronald Grierson, Executive Director of S.G. Warburg, took on the post of Deputy Chairman and Managing Director. Later, (now Sir) Charles Villiers, another merchant banker (of Schroder Wagg) succeeded Grierson at this top post.

When it was established in 1966, the IRC had the capacity to draw on funds of up to £150m, not enough to have a great impact on the capital market but not negligible either if applied at propitious moments. Given the thrust of the government's initial commitments, it had the hardly surprising task of "promoting industrial efficiency and profitability and assisting the economy of the U.K.," a task it pursued mainly by promoting the concentration of capital assets (IRC Act, 1966). The priorities of the IRC were first to improve the export competitiveness of British industry and second to increase productivity. This it attempted to accomplish by promoting mergers of major corporations and by making loans which included reorganization as one of their conditions. While

IRC money came somewhat easier than that of the City, it still demanded a commercial return and the self-liquidation of all injections in order that the IRC might assume financial independence from the state within five years. Similarly, it did not take equity holdings in the private sector and must be seen therefore as quite distinct from state holding companies such as the Italian IRI or the NEB of the 1970s (see Holland, 1972, for a description of the IRI).

The case for the IRC was premised on the view that British firms were too small to compete in a world increasingly dominated by multi-national giants. While the government intended it to serve as a catalyst for accelerating the rate of concentration, it like NEDDY could only achieve results given the co-operation of industrialists. Its independence and disinterest as regards Labour's politics were consequently stressed. Its first Managing Director, Grierson, sought to make it "a forum where directors of large companies could discuss their ideas for mergers and reorganizations without feeling that they were talking to the Government but knowing that public money could be forthcoming (Young and Lowe, 1974, p. 41)." In the course of events it took up a more active role, serving not just as a forum for discussion but actively promoting mergers when deemed appropriate to its immediate aims, namely reduction of product differentiation and increasing the scale of individual enterprises. Concentration of market power and capital assets provided from this point of view the pivotal means for all other ends of industrial policy.

The most spectacular mergers of the late 1960s often occurred under the auspices of the IRC or with its financial backing. In electronics it prompted the takeover of AEI by GEC, the merger of English Electric and Elliot Automation and ultimately the creation of a "national champion," GEC-EE-AEI. In autos it backed the formation of BLMC with a £25m loan to centralize the British-owned firms in that increasingly troubled in-

dustry. In ball bearings the IRC took part in a long, drawn out and in its terms successful struggle to bring together three British companies, Ransome and Marles, Hoffman, and Pollard, without the participation of the largest producer in the UK, Skefco, which was tainted as a result of being a subsidiary of the Swedish firm, SKF. The activities of the IRC in all three branches indicated its implicit aim to foster British-owned giants or so-called "national champions" (see Holland, 1972), rather than approving foreign bids or transnational linkages. However, since Chrysler was allowed to buy out Rootes Motors, one can see at least a degree of flexibility on the question of foreign penetration of British industrial ownership (Young and Lowe, 1974, pp. 74, 75, & 92).

It should come as no surprise that the IRC was hardly unpopular with large sections of industrial capital. Given its independence from the government, its complete dominance by representatives of capital, its self-imposed limitations and the fact that it offered available, if niggardly, finance in a tight market, it could hardly fail to attract some support. Why it managed to retain at least a publicly cordial relationship with the City is another question, since it certainly could have been taken as an attempt to outflank the financial conservatism of the latter. No doubt the financial background of much of the IRC management and their active pursuit of City co-operation helped assuage some fears. Yet, since the Conservative government of Edward Heath wound up the IRC soon after returning to power in 1970, one can presume that hostility still existed in at least some quarters of big capital.

The activities of the IRC may not have resulted in much actual reorganization of capital, except in so far as they contributed to the merger boom of the late 1960s and early 1970s (Young and Lowe, 1974, ch. 8). Of course the latter occurred all over the advanced capitalist world and cannot be attributed simply to the pro-monopoly policies of the

Labour government. Yet, Labour in no way impeded the trend towards concentration and certainly contributed to that movement by both encouraging a climate favourable to such developments and providing backing to influence the outcome in several important cases. One should also note that the one area later touted as the sole example of success in Labour's economic policies, namely the slight increase in productivity in the late 1960s (Bacon and Eltis, pp. 8 - 15), can be attributed largely to the shedding of labour through the closure of old plant as a result of the government-backed merger boom. Paradoxically, this "success" contributed significantly to the decline of employment in manufacturing which more recently has been taken as a key index of British "de-industrialization (ibid., and George, 1979)."

If nothing else the emergence of bodies like the IRC and the NEDC and their growing acceptability to business indicated the extent to which regularized state intervention in the private sector had become not just a normal but necessary and desirable feature of the political economy of advanced capitalism from the point of view of major industrial managers themselves. In the words of one of the members of the Monopolies Commission,

What is new is the acceptance of this kind of intervention as a continuing activity. Formerly, it occurred simply for the purpose of rescuing industries in danger of collapse. Now the purpose has become wider and more ambitious, namely, to raise the efficiency and competitive strength of developing industries upon which the future well-being of the economy is believed to depend (G.C. Allen, 1970, p. 162).

The Ministry of Technology or MinTech, as it was aphoristically titled, concentrated its attention on potential, capital-intensive growth sectors as the major impulse behind Labour's quest for a new "technological revolution." MinTech specialized as a sponsoring department for these core industries, computers, electronics, machine tools and manufacturing, vehicles and mechanical engineering, aircraft, and eventually shipbuilding,

where the cost of research, or in the case of shipbuilding simply re-equipment, had become prohibitively expensive for private firms. MinTech in general had the responsibility for speeding "the application of new scientific methods to industrial production" with the growth of productivity in the export field as top priority (Wilson, 1974, p. 30). The fledgling British computer industry, for example, received some £13.5m in government grants for R & D.

In the same vein the Industrial Expansion Act widened the powers of MinTech to use "loans, grants, guarantees [and] the underwriting of losses of the subscription of share capital" to further expand efficiency, productive capacity and technological improvement (IEA, 1968). The Act thus supplemented the activities of the IRC. The government first applied it to promote a national computer holding company, IC (Holdings), Ltd., with a 10% stake by the state, merging the computer interests of English Electric, Plessey and ICT. Labour also encouraged the development of aluminium smelters as a substitute for imports by promising loans of up to £66m to the firms concerned as well as special electricity rates and the usual investment and building grants.

The shipbuilding industry constituted enough of a special case to warrant its own act, the Shipbuilding Industry Act of 1967, but the style of intervention was much the same as above. In the first place the four troubled Scottish yards were into a new private group, Upper Clyde Shipbuilders. Secondly, while ostensibly private, UCS received heavy state backing, initially through a guarantee of £400m in bank loans to those shipowners who placed construction orders with U.K. firms and later, when that proved insufficient to thwart severe investment and liquidity problems, via outright grants.

In essence then, whether through the IRC, the Industrial Expansion Act or individual acts tailored to the specific needs of troubled indus-

tries, the strategy of the government hinged on the creation in each case of large private monopolies capable of competing internationally. They remained in each case legally private but heavily dependent on state aid for their very existence and future viability. The failure of this strategy only became apparent in the first half of the next decade, when some of these giants collapsed under severe financial pressure, most notably in the case of UCS and British Leyland. While the Wilson government proved extremely reluctant to extend public ownership into any new sectors (restricting nationalization to the rather unique case of the steel industry), this inhibition did not apply to spending vast quantities of public funds to support private accumulation. What is notable is that this programme, despite its relative massiveness in comparison to Tory efforts before and since, proved insufficient to reverse the continued decline of British manufacturing, raising new issues and strains for the Labour leadership in opposition. The new Conservative government similarly found its options rapidly curtailed by the same developments.

The nationalization of iron and steel offers virtually the only example where industry and Labour clashed head on. Both the Iron and Steel Federation and to a lesser extent the CBI (not to mention the Conservative Party) fought the Iron and Steel Act of 1967 through the various stages of Parliamentary procedure and implementation without success in securing its repeal. At the same time the arguments of those who employ this incident as an example of political pluralism, of the inability of capital to force its wishes on the government, must be placed in the context of Labour's total record in industrial and economic policy (Grant and Marsh, 1977, pp. 168-73 & 203-7). Yes, the nationalization of steel was a concession to the wishes of the industry's unions and counter to those

of the managers and owners. Yet, it can hardly be taken as a blow to the interests of industrial capital as a whole nor as a step along the "red brick road" of socializing the "commanding heights" of the capitalist economic system. For after twenty years in which an effectively state corporatist arrangement through the Iron and Steel Board had failed to produce the radical restructuring and concentration evidently necessary (as indicated by declining profitability and market share), steel had gradually slipped into the classic position of a sick, basic industry for which the only viable solution was public ownership. Recent events have of course only confirmed this underlying trend. Nationalization in this case was far closer to the political mould of voluntaristic corporatism than might at first seem the case, i.e. geared towards retaining a viable base for private manufacturing rather than changing the structure of power of British society. This and the fact that as usual Labour relied on the co-operation of the more flexible leaders of the industry in designing the new organizational structure offer some clue as to why the CBI was somewhat reluctant to fight the issue tooth and nail (McEachern, 1980).

At the same time that it was promoting mergers and concentration via the IRC and other interventionist policies, the Wilson government paradoxically attempted to inject a dose of competition into British industry by enhancing the powers of the Monopolies Commission. The idea here was simply to put pressure on prices through a constant review by a public agency. The Commission also had the capacity to investigate proposed mergers, including those promoted by the IRC. However, as might be expected, it ended up reviewing only a tiny proportion of the mergers that actually took place in the second half of the 1960s and early 1970s. Only 20 of the 833 mergers coming within the scope of the Monopolies and Mergers Act of 1965 were actually referred to the Commission. Of these seven were allowed to proceed in any case, seven were voluntarily

dropped by the interested parties and only six were found to be against the public interest and actually prevented or abandoned in the period between 1965 and 1973. As a result the activities of the Monopolies Commission were very much spitting into a wind, or rather a hurricane of mergers and take-overs, which left British industry one of the most highly concentrated in the capitalist world once the storm subsided (Hannah, 1976, pp. 172-7 and Beckerman, 1972, p. 193).

As regards the control of prices, the National Board for Prices and Incomes supported the efforts of the Monopolies Commission. It also exercised the power to review price rises, although the substance of its activities concerned the promotion of an incomes policy and productivity bargaining. The ultimate impact of both of these bodies on the control of prices seems negligible; the Commission had little influence, and as noted above the NBPI interested itself far more with wages and shop steward autonomy from union officialdom than with the pricing policies of major firms (see also D. Coates, 1975, p. 125).

Labour also used the more traditional fiscal incentives as part of the general scheme to restructure British capital without actually directing it. These were weighted in favour of 1. those branches of industry that would contribute to the balance of payments, 2. encouraging investment in the Development Areas, and 3. aiding those firms whose current investment needs exceeded their current profits and therefore could not utilize investment allowances to their full extent. Also the government felt that investment grants were more visible and their impact more immediate, an important consideration when it became clear that many firms appraised their investment projects on a pre-tax basis, indicating a total lack of consideration of the available tax breaks (Beckerman, 1972, p. 185). The government attacked the other end of

fiscal policy by introducing a Corporation Tax to replace the previous tax on profits. The idea were was to encourage the retention of earnings rather than their distribution to share-holders in the hope that this would lead to a higher rate of investment. Rather than taxing all profits at same rate of 56% (leaving no further burden on dividends unless the recipient paid surtax), the new system levied an initial "main-stream" rate of 40% plus income tax on distributed earnings. Against that 40% rate firms could of course deduct the various allowances and deferrals for investment in new plant, Development Area grants, etc. (Beckerman, *ibid.*) and Kay and King, 1978, ch. 12).

In the interests of increasing productivity the government introduced the Selective Employment Tax. The SET simply raised the cost of labour in the service sector, owing to a refund given to the manufacturing sector. The aim of the tax, derived from the theories of Professor N. Kaldor, was both to move labour into manufacturing where productivity increases are much more rapid and encourage capital substitution in the service sector by raising labour costs in the latter by some 7%. As noted above in the context of the force of concentration and shake-out of employment in manufacturing, the SET totally failed to reverse the tidal movement of labour from manufacturing into services. Changes in the latter years of the government appertaining to these fiscal innovations did not alter their substance but merely the rates charged. In December, 1966, investment grants were increased from 40 to 45% and from 20 to 25% inside and outside of the Development Areas, respectively. Likewise, the Corporation Tax was boosted from 40 to 45% and the SET raised twice during the two years of restriction following devaluation.

The second major area of restructuring policy, as noted earlier, was that which attempted to influence the location of new investment in order to achieve more balanced geographical growth and thereby prevent

the increasing social cost of urban concentration in the Southeast and the waste of labour through regional unemployment. Regional policy remained a subordinate aspect of Labour's economic game plan largely because,

the major innovation which the Labour Party proposed - that regional economies should in some sense be planned-- became lost in the wider issue of the management of the British economy, and subsequently of the viability of the National Plan (Beckerman, 1972, p. 218).

One should not take this to mean that Labour did not sink a considerable amount of state funds into regional incentives. One analysis of state assistance to the private sector in the Development Areas has estimated the increase over the previous Tory government to have been in the order of ten fold, from £30m in 1964/5 to slightly over £300m in 1969/70. Even accounting for the fact that some of the increase was due to policies initiated before the 1964 election which did not exert their full impact for several years, the increment due to Labour was still massive, in the area of 400% (Hardie in *ibid.*, p. 224).

The instruments for influencing regional development thus consisted essentially of fiscal incentives, but the fate of at least one aspect of these, the differential rate applied to investment grants, indicated the limits of this type of intervention. While it amounted to a considerable outlay of state funds, according to the same study, "It is likely... that the investment grant system did not represent any substantial change in the level of incentives to companies to switch investment into the Developing Areas (*ibid.*, p. 228)." The Regional Employment Premium may have had some impact in influencing decisions about location. It consisted of a subsidy for labour employed in the regions, as opposed to the investment grants which subsidized capital costs. Together they may have reduced total operating costs of private firms in the Development Areas

by up to 5% if fully utilized (ibid., p. 230). The SET, as mentioned above, was employed in tandem with the REP to raise the price of labour elsewhere in the country.

The government had another instrument of at least potential effectiveness in the control of industrial location, namely the Industrial Development Certificates, another relic of the war-time and Attlee era. These were issued through the Board of Trade and were required for all industrial construction over 3,000 square feet in the Southeast and Midlands and over 5,000 square feet elsewhere. While the discriminatory use of IDCs obviously could and did limit industrial construction in congested areas, it was a strictly negative control and could not be used to direct private capital to build its new plant in the priority areas. The actual impact of these Certificates in terms of expanding the industrial base of the declining regions is far from clear (ibid. pp. 233-46).

If the result of direct controls does not offer much confirmation of the effectiveness of the locational aspect of Labour "planning," the use of fiscal incentives was even more clearly of negative importance. These suffered from the same insufficiency as licensing controls, the inability to direct capital to move in congress with national needs as defined by the state administration, without having even the limited advantage of the former, i.e. restrictive influence. Even as a mode of influence they seem to have had little, if any, effect despite the amount of public funds involved. Even before they were introduced, businessmen consulted by the Richardson Committee on turnover taxation stated that the possible changes in the fiscal system would have no effect on their investment programmes (NEDC, 1965, p. 1). Similarly, Stuart Holland has pointed out at a later date that, for example, in recent evidence to the Commons Expenditure Committee Unilever submitted that 'we are unable to produce evidence from our own

experience that the Regional Employment Premium has increased investment or employment in the Development Areas.' Cadbury Schweppes submitted that neither labour nor capital incentives played a major role in location decisions. GKN stated that 'the attraction of the incentives has so far been inadequate.' Tube Investments said that 'there are not many projects where regional policy is of critical importance to the strategic decision (to locate).' Univac stated that 'we would have gone to a Development Area regardless of the grants offered.' And Dunlop frankly admitted that it made a surplus from regional aid which was useful for investment elsewhere (Holland, 1974, p. 4).

With the demise of the National Plan the various measures enumerated above, which attempted to facilitate the restructuring of capital along locational and sectoral dimensions, were not integrated within a directive programme of action. None the less, while they were implemented in an ad hoc manner, they did imply a strategy or at least an order of priorities of the Labour government. In the first place, all of the various aspects of industrial and regional policy remained within the bounds of voluntaristic corporatism, relying on the co-operation of the more "progressive" sections of industrial capital and fiscal incentives rather than coercive sanctions imposed from above or popular control imposed from below. As argued above, even the sole exception to this rule, the case of steel, confirms its general application. Secondly, the underlying logic of ad hoc intervention was to boost the profitability and competitiveness of industry, mainly through concentration or the encouragement of national private monopolies, with only the most paltry and insignificant attempts to control the new giants or ensure some principle of accountability in the private receipt of vast state funds. Thirdly, in its rather thwarted attempts to influence corporate investment programmes the state remained strictly within a supportive rather than directive role, demonstrating in consequence the effective limits of this mode of intervention and initiating the gradual movement away from taxing company profits which would reach its logical extreme in the middle of the next decade.

Most significantly, the pre-eminent objective of the government

was to control the cost of labour, mainly through an incomes policy that would keep the growth of wages in line with that of productivity. The implementation of an incomes policy, however, soon met with a formidable barrier, the defensive strength of working class organizations especially at the plant level. For in the course of the post-war period a network of informal bargaining arrangements at the local rather than national level had emerged as a major determinant of actual pay rates. This "second tier" in the "industrial relations system" put limits on how far the "first tier," namely trade union officialdom, could accommodate the demands of the state. The Labour government's successive efforts to exert control over at least this aspect of the national production function led to the increasing awareness that under the given set of relationships its hands were tied from below as well as above. Given its fundamental commitment to support a capitalist mode of production, the focus of the government shifted irresolutely towards legal changes aimed at centralizing the bargaining structure and curbing autonomous shop-floor militancy, paradoxically pushing the TUC in a greater co-ordinating role in opposition to state direction of industrial relations. Ultimately, the Party had to abandon this implicit strategy, which had led it from voluntary restraint supervised by the TUC to legal controls subordinating trade union leaders to the administrative machine, leaving office with only a highly unstable arrangement of "bargained corporatism" in which the TUC agreed to implement some central direction in line with the recommendations of the Donovan Commission (Crouch, 1977, pp. 163-6 & 237-43) and Panitch, 1976, ch. 7 & Conclusion). It was left to the incoming Tory government to reintroduce that legislation in a more punitive form.

Theoretical Evaluation of Labour Planning

In terms of the model outlined in the first chapter the experience of Labour planning saw first the completion and then the partial breakdown of the innovations first instituted under the Conservatives along the dimensions of input, output and mode of procedure which I have termed voluntaristic corporatism. Along the representational axis Labour simply attempted to make tripartism work with no significant institutional changes, i.e. the DEA did not itself incorporate the tripartite agency into the state apparatus as that remained the function of the NEDC. In this Labour achieved considerable initial success with the Statement of Intent and the voluntary incomes policy of its first two years. However, once the government veered off course in the 1966 sterling crisis, its resultant unilateral actions and the virtual abandonment of tripartite negotiations put severe strain on its relations with both industrial capital and organized labour, the latter in particular bearing the brunt of the crisis measures. Labour made no attempt to alter the corporate bias of the tripartite institutions retained from the earlier Conservative government (the NEDC and EDCs), and even its innovative agencies (the NBPI, the DEA, the IRC) made few concessions to trade union representation or outlook, pursuing instead the same general objectives, i.e. productivity, increased profitability, wage control and the concentration of capital. The attempt to introduce measures of union reform over the heads of the TUC ushered in a new era of relations between the state and organized labour, one of dissension and conflict, that of course intensified under Heath in 1970-74. The resulting disruption and virtual revival of open class warfare unseen since 1926 highlighted a crisis of representation which in effect began under Labour in 1966.

In terms of the state's economic function Labour proved more interventionist in its approach than the Tories but equally constrained in the end by the limits set by capital and labour to the programme of voluntar-

istic corporatism. The movement towards some form of central co-ordination of economic policy of course collapsed under the impact of the July crisis of 1966 leaving only ad hoc intervention along various lines. Where it breached the limits of acceptable policy as regards some sections of capital, e.g. the nationalization of steel and the IRC, such measures did not constitute a significant threat, and indeed the latter organization enjoyed considerable support by the time the Conservatives returned to power. The government of course never attempted to institute a programme of directive state intervention, let alone anything smacking of a transition to socialism, but restrained state actions to a strictly supportive role vis à vis private accumulation. Even those acts which received an unfavourable reception among the more hostile sections of industry and finance were framed in terms of reinforcing not undermining the authority and competitiveness of British capital. Intervention on the side of labour was at the same time a much greater threat to the freedom and independence of working class organizations, and, as argued above, the move in the direction of statutory controls was a direct result of the failure of planning and political dominance of national and international finance imbedded in the existing structure of the state and its external relations. However, here as well the negative strength of the union movement prevented any dramatic or permanent move in this direction, leaving the government politically bewildered and exhausted by the time of the 1970 election much as in 1931 and 1951.

The internal changes in the structure of the state administration I have exhaustively described above. Briefly, the "technocratic" apparatus was brought into the state sphere with the creation of the D.E.A. The aim here, as with the other institutional innovations of Labour, was in essence to "functionalize" state expenditure and policy to the requirements

of private capital accumulation. Likewise, the refinement of public expenditure surveys with the institution of the Public Expenditure Survey Committee (which will be described in detail in the next chapter) followed this fundamental logic. However, the unwillingness or inability of the government to establish the hegemony of the DEA over all aspects of policy formation, the demise of anything resembling a framework of national planning and the consequent recurring disruption of policy and expenditure programmes by the state of almost constant crisis undermined virtually completely all of these efforts. In the end Labour could not escape the fundamental fact that it had not dismantled the basic structure of power and the continued dominance of the traditional power block of financial capital. Throughout the course of the sixties each crisis reasserted the priorities of the City and redirected the government away from its electoral programme and down the path preferred by the dominant agents of capital.

The Labour governments of 1964-70 failed to provide a programme of indicative planning much as the post-war governments had failed to institute "democratic planning." One need not dig too deep for the reasons beneath the impasse of Labourism. The normal exercise of state power in a capitalist society occurs within strict limits. Pre-eminent among these are the legal relations which delineate the private ownership of productive capital. Even if one accepts the arguments about the "managerial revolution," which I do not, the following comment of the "mangerialist," Edward Mason, seems apt:

though private ownership may no longer carry with it control, it does guarantee corporate management against most of the political, ministerial and legislative interference that commonly besets public management. Perhaps in a corporate society this is becoming one of the primary contributions of private property (cited in Shonfield, 1965, p. 379).

If the legal separation of the private sector has allowed the state rather meagre instruments for influencing the course of the accumulation

process, the international expansion of capital, the development of new forms like the multinational corporation, have thrown the insufficiency of the national state as it presently exists into sharper relief. The power of international agencies has already been dealt with to the extent that their activities are a known quantity. The growth of multi-national capital has brought into question, however, even the limited efficacy of macroeconomic measures as practiced in the political economy of post-war capitalism. Through transfer pricing, leads and lags in internal payments across national boundaries, these giants can play havoc with the normal controls on the balance of payments, reserves, etc. There already exists evidence that they were becoming the central actors in the farce of speculation against the pound in the 1960s, as well as other currencies. They are equally in a position to by-pass monetary policy through generating funds internally or utilizing international credit, as noted early on in the evidence to the Radcliffe Committee (see also Holland, 1975, ch. 3). These new giants were to have a greater part in the next decade's drama, one which unfortunately reinforced the traditional point of view and dominant position of British finance, as we shall see.

In essence Labour failed to plan the economy because the leadership of the Party assumed that it was possible to direct a capitalist economy while relying on demand management, fiscal incentives, exhortation and the co-operative attitude of big capital and the unions. Without the instruments to plan there could be no effective planning system. By the end of the decade not only planning but the entire array of macroeconomic policies identified by the logo of Keynesianism had come increasingly into disrepute as the simultaneous pursuit of the goals of full employment, growth, price stability, sustained investment and balance of payments equilibrium proved intractable. Clearly, this entire

mesh of policies had reached certain limits in the context of the decline of Britain's economic structure, the limits set precisely by the exercise of class power in a class society. To achieve any further advance of a planning mechanism would imply the enhancement of the state's degree of autonomy from the dominant structure of power. It would necessitate a direct confrontation with the traditional power block, presumably using the organizations of the labour movement as the shock troops of any new offensive. Whether the Labour Party could rise to that challenge in the 1970s is a matter into which we shall delve shortly. Certainly, the record of the sixties did not bode well for any renewal of a planning initiative in the next decade, in which the costs of failure would prove even greater from the stand point of both the legitimacy of the Labour Party and even parliamentary democracy and the rights and conditions of the British working class.

CHAPTER EIGHT

The City and Industry to the 1970s

The Dynamic World of Finance

Throughout the 1960s the position of sterling and the City altered radically, transforming in turn the context in which economic policy would be formulated in the 1970s. Put at the most general level the loss of sterling's protected position in the countries of the old Empire and its final eclipse by first the dollar and then other "strong" currencies in both its reserve and transaction roles finally registered in the consciousness of both the City and the Civil Service. At the same time the City regained its international prominence as a major, if not the major, financial ~~entre~~depôt. As Strange argues, four developments were intertwined in this process of financial restructuring, all of which had a negative effect on the balance of payments¹. In the first place there was substantial investment overseas, especially into the sterling area. As an international investor Britain was second only to the United States and far ahead of its nearest competitor. In the late fifties and early sixties, this investment amounted to a substantial burden on the external account, although by the end of the decade repatriated income was balancing capital outflow. Reflecting the gradual demise of merchant banking from the end of World War I and the rise of multinationals in the post-World-War-II period, this investment was overwhelmingly direct rather than portfolio, a point to which we will return shortly. In the 1970s once again direct investment rose considerably, this time, reflecting the changing orientation of British capital, directed increasingly into Europe.

1. The following draws heavily on Strange, chapter 4.

Secondly, the disintegration of the remnants of the Empire had manifold repercussions. The gradual decay of sterling's reserve role among the sterling area countries could not be staved off any longer, and by the end of the 1960s the latter had diversified into other currencies. Particularly after devaluation in 1967 the pressure to drop sterling as a reserve currency became insurmountable. The realisation that it was possible to separate the reserve role of the pound from its transaction role in world trade or even jettison both no doubt reduced alarm and despondancy in financial circles as is clear in the following passage from The Banker (1967, p. 1031):

A decline of the reserve role of sterling need not be too damaging to its use as a world trading currency. Britain remains a great trading country, and it will continue to be convenient to transact a great deal of world commerce in sterling. Similarly, the attractions of the City of London as a financial centre will survive the devaluation of sterling. Its remarkable success in Euro-currency business in recent years is evidence, if it still be needed, of its enterprise and adaptability.. The pound will still be used as a leading world currency for trade and finance.

Similarly, a few years later the Governor of the Bank of England noted that "we came to the conclusion some time ago that it was right that we should not seek to perpetuate the use of sterling as a reserve currency" (Bank of England Quarterly Bulletin, 1972, p. 83). He continued to explain that

A distinction must be made between the reserve role of sterling and its trading role, and a decline in the former does not necessarily lead to a decline in the latter. Even more important, the past decade has shown that the City can flourish and expand internationally even when sterling is weak, and the international use of sterling is being curtailed. (ibid. p. 85)

Thirdly, the dissolution of the Empire was also expressed politically through increased government spending abroad for military and economic purposes. While this might seem paradoxical, the point is simply that the period of transition to "home rule" for the former colonies necessitated increased military and political involvement to secure regimes friendly to British and Western interests. The burden

of the state's overseas payments has been frequently cited in the past but what is less commonly recognised is the mutually reinforcing tendencies of foreign political involvement and the international role of the pound.

The fourth development was the revival of London as the international financial centre of Europe, increasing the volatility of short-term capital flows and preparing the way for the eventual divorce of the fortunes of the City from those of the pound. London emerged in the sixties no longer an instrument for funnelling British capital abroad but primarily as an international financial entrepot. The City prospered as never before, but its international transactions were increasingly denominated in currencies other than sterling. In fact the most spectacular growth area was in the Eurodollar and Eurobond markets, i.e. markets in short and long-term credit denominated in dollars and often held by foreigners. The breakthrough for Eurobond dealing came in 1962 following the decision by the Bank of England to allow issues of securities denominated in foreign currencies in London. Subsequently, new issues of Eurobonds rose from \$14m in 1963 to \$3,368m in 1968 with most of the secondary trading centred in London as well (Strange, 1971, p. 205). The Eurodollar market likewise became centred in London where perhaps half the transactions have taken place. While estimates of the volume of business are notoriously imprecise, the Eurocurrency market as a whole (including currency denominated in DM and others) grew from its inception in 1958 to something like \$20 billion in 1966, \$44 billion in 1969, \$91 billion in 1972 and \$132 billion in 1973. In comparison the entire UK money supply in 1972 equalled about \$54 billion (Samuels et al, p. 270). Of course, London did not become the centre for these markets simply out of tradition but owing to British policy, which unlike that of European governments, directly encouraged the inflow of Eurodollars and allowed the formation of a direct link between the

foreign and domestic credit markets. Eurodollars were drawn to London because of the high interest rates, where they could be switched into sterling and where holders of sterling could get state-supported insurance against a fall in the rate of exchange (Strange, 1971, p. 213).

In more recent years the proportion of Eurocurrency business centred in London may have declined somewhat, due mainly to the increasing importance of non-dollar Eurocurrencies, to the decline of on-lending by US banks in London to their head offices owing to restrictions imposed by the Federal Reserve, to the easing of credit conditions in the US, and to the rise of foreign currency lending by British banks to British residents. One state-funded report which noted this changing situation went on to recommend the encouragement of multi-currency holding on the part of City institutions and suggested as possible counteractions "a revival of sterling as a trading and investment currency, and an initiative by British-based banks to develop a European Currency Unit market centred in London" (IBRO, pp. 2-12).

In the sixties the economic policies of successive governments were dominated by the same priorities that governed the entire pre-war period, namely an "open door" for the City and support for sterling in every possible way. This does not imply that conflict did not occur over economic policy. As I have argued above this conflict did take place, although opposition forces, led by various economists but with significant backing from industrial capital, never succeeded in overturning the established structure of power. The divergent positions were expressed as the maintenance of sterling as against the need for growth, alternatives which were posed against each other for the remainder of the decade. While various governments, particularly Labour, appreciated the dilemma and hesitated in introducing deflationary policies, when the crunch came they invariably supported

sterling and clamped down on domestic demand and investment. (See also Kaldor, 1971.)

While the policies of governments of both parties ostensibly aimed at defending the international role of sterling and the existing exchange rate, they ultimately failed at both tasks. In fact in many ways they encouraged the substitution of the dollar as top currency in that American banks were allowed to open many branches in London and expand their business tremendously. Similarly, the lack of restrictions on capital flows encouraged the growth of the Euro-credit markets. The growth of American multinational firms no doubt also facilitated the worldwide use of the dollar. At any rate by the beginning of the 1970s sterling was finished even as an international transactions currency, but the City was prospering despite the loss.

While the growth of the Eurodollar and Eurobond markets was the key feature of the 1960s, it in turn was a prime factor behind various other changes in the structure of British financial institutions and their competitive strategies, mainly by way of eroding the boundaries between and within national financial systems. First among the related features was the growth of the so-called secondary and parallel markets. Stimulated initially in the late 1950s by the return to convertibility which permitted the entry of short-term money into London and by the requirement that local authorities finance a greater share of their short-term borrowing from private sources, the parallel markets thrived in the 1960s as a means for avoiding the official restrictions of the discount market and, as far as lenders were concerned, for receiving higher interest rates. The growth of issues of and secondary markets in certificates of deposit (CDs) illustrates the interaction of international and domestic financial systems in this process. First introduced in the United States primarily for corporate users, New York

banks began to issue CDs in London for their multinational clients. Following their success in City markets legislation was passed allowing the issue of sterling CDs in 1968, which subsequently grew to a total of some £5,100m by July 1974 (Channon, 1977, p. 14). While the growth of parallel markets both in dollars and sterling (and eventually other denominations) attracted a good deal of business to the City, it also brought certain disadvantages and dangers, chief of which were the lack of security on such loans and of a lender of last resort. The influence of the state authorities on such markets, which had emerged largely to avoid official control, was at best indirect, a feature symptomatic of a deeper crisis which we shall return to at the end of this section (*ibid.*, ch. 1 and McRae and Cairncross, 1973, ch. 4).

In the same period and for much the same reasons as the growth of the Eurocurrency and parallel markets the City experienced a massive invasion of foreign, especially American, banks. Securing a beachhead in the early 1960s foreign financial institutions expanded their activities and assets at a phenomenal pace in the latter years of the decade and into the 1970s. By 1975, 244 foreign banks had established operations in London, more than half after 1967. Of these 58 were American, 23 Japanese and a further 35 from the EEC countries. The assets in sterling and foreign currencies of these institutions totalled £69,800m in the same year, some 53% of the total banking sector (British and foreign) in the UK, while the assets of American banks alone (at £33,600m) exceeded those of the London clearing banks (Channon, 1977, pp. 150-1 and The Banker, Nov. 1975). By 1979 despite the squeeze on profitability through the high sterling rate and the feeling that the foreign presence might be near the point of saturation, the number of foreign banks had grown to 328 of which 72 were American, 24 Japanese and 64 from the EEC. London's status as

a world financial centre was further confirmed by the fact that only 15 of the top 100 banks in the world did not have a branch in the City. The total assets of these institutions had now reached £130,172m, up to 56% of the total assets for all banks operating in the UK. Their share of sterling advances, while growing steadily from 13% in 1975 to 16% in 1979, indicated their continued concentration in the foreign currency markets, where they accounted for 77% of the advances by all banks (The Banker, Nov. 1979). The only serious rival to London as an international financial centre by this point remained New York with somewhat fewer foreign banks represented (234) but only 11 of the top 100 not having direct branches. The spheres of influence of the two centres also differed somewhat, reflecting historical patterns; New York retained stronger representation from Latin America and London from the Middle East, Indian sub-continent and the socialist countries (The Banker, Feb. 1980).

In this hot house environment the structure and strategies of British financial institutions were forced through rapid mutations. The intensely competitive context dovetailed with state policy in the late 1960s, as the PIB challenged the traditional embargo on mergers in the financial sector with the (then) surprising approval of the Treasury and the Bank of England. There followed a major merger boom (as with the rest of British capital), the first since the 1930s. The most dramatic of these was the fusion of National Provincial and Westminster, fourth and fifth ranked of the big five, in January 1968, which brought the resulting National Westminster into first position in terms of total deposits. However, the attempt to merge Barclays, Lloyds and Martins a month later was blocked by the Monopolies Commission, although Barclays was allowed to absorb Martins

as a sweetener. Within a few months the Big Five had become the Big Four (nearly the Big Two), and various other smaller banks had disappeared in the process, creating a new structure of clearing banks which has remained fairly stable since then (Channon, 1977, pp. 42-4, and Committee of London Clearing Banks (CLCB), pp. 20-25). As a result Barclays and National Westminster ranked fourth and fifth in the world in total assets behind only the big American banks (Bank America, First National City and Chase Manhattan), while Midland and Lloyds were placed somewhat further down the table at 22nd and 32nd, respectively (The Banker, June 1971). By the end of the 1970s the strength of the Japanese and to a lesser extent the German and French currencies contributed to the banks from these countries displacing the British (even more so the American) banks in the top 50. Barclays had dropped to 19, National Westminster to 21, Midland to 41 and Lloyds to 47 in the world stakes (The Banker, June 1979). Yet, within a year, again partly due to currency realignments, Barclays had returned to the top ten at ninth, National Westminster, 11th, Midland 26th, and Lloyds 37th. This rapid return to the front runners was not simply due to sterling's new found status as a petro-currency, however, since in terms of pre-tax earnings all four British clearers ranked in the top ten with Barclays and National Westminster the world leaders (:), a point to which we will return in the next chapter (The Banker, June 1980).

Strategically as well the clearing banks had to innovate rapidly in order to match the services offered by their foreign, especially American, rivals as well as take advantage of the possibilities offered by the new wave of computer technology. On the one hand they diversified, particularly into services to the corporate sector including credit finance (through either investment in or total purchase of finance houses), factoring, leasing, merchant banking (through purchase as in Midland's acquisition of Samuel Montague and the Drayton Group or

through building up internal divisions), investment management, other non-banking services like travel and insurance, and finally multi-national expansion, which we shall return to shortly. The adoption of merchant banking functions was reflected in the growth of contractual term lending to the corporate sector, particularly after the introduction of competition and credit control (see below, ch. 9) ended quantitative restrictions and allowed access to wholesale deposits in 1971.

Contractual loans to non-personal borrowers increased from nearly 27% to over 40% between 1973 and 1976. On the other hand the clearing banks increasingly shifted to a divisional structure, especially in correspondence with their multinational extension, decentralising bureaucratic management, reorganising each division, whether geographically or product-based as separate profit centres, replacing non-executive with executive and professional directors, in short, adopting the corporate structure of modern capitalist multinational enterprise (Channon, 1977, pp. 44-61, and CLCB, chs. 2, 8, and 13, and Table 59).

Under these circumstances the merchant banks could hardly cling to their status, and well-established traditions. While in the early post-war years they seemed destined to remain locked in the languor and slow decline that had set in during the inter-war decades, the revival of the City after 1958 spurred them as well into rapid growth. The return to convertibility, the relaxation of exchange controls, the emergence of the Eurocurrency and secondary markets, the development of corporate and export credit finance and the expansion of fund management with the rise of institutional investors all offered scope for increasing the business and activity of the merchant banks. Several years before the clearers they had initiated a series of take-overs and fusions within their own ranks. They likewise rode high in the merger wave that swept through the whole corporate world in the mid-to-late

1960s with the aggressive but not exactly stately firm of Slater Walker setting a somewhat notorious style in this particular field. However, by the early 1970s the inherent limits of merchant banking, particularly their very narrow capital base, began to pose very practical questions about their future in the increasingly cut-throat world of international finance. Dwarfed financially by the clearing banks and the foreign invaders they attempted to defend their position through diversification into the same services, i.e. those mentioned above, plus leasing and factoring, insurance, and, of course, property development. However, these activities merely contributed to the blurring of traditional lines of demarcation in, as the Radcliffe Report once noted, the single market for credit, a process confirmed and encouraged by the introduction of CCC. While most of the staid members of the Accepting Houses Committee managed to say clear of the eventual collapse of the property market in 1974, a few well-known names did go under, such as Keyser Ullmann, Edward Bates, William Brandt and for somewhat different reasons Slater Walker. As a result of these various pressures many of the merchant banks began to forge closer links with the clearers sometimes through absorption, as in the above-mentioned case of Midland, but more often through strategic financial holdings, while others pursued the same tack with either foreign financial or other industrial and commercial groups. Given the late adoption of diversification and divisional organisation and the overwhelming limits of size, independent merchant banking was very nearly in its death bed by the end of the decade (Channon, 1977, ch. 4 and C.J. Clay and Wheble, 1976).

Taking a more global view British finance was better placed to meet the other major challenge of the late 1960s and 1970s, namely the development of multinational facilities and operations. The

merchant banks of course had their roots in the interstices of international trade, although from the inter-war period through the 1950s their emphasis had shifted to domestic activities. From the late 1950s they redeveloped an international posture, first through export finance, then through the Eurocurrency markets and finally for defensive reasons against encroaching competition through establishing direct operations, correspondent linkages and consortium associations abroad (Channon, 1977, pp.137-141). Again, though, size and the aggressive move of the clearing and foreign banks into traditional activities of the merchant banks hampered the growth of the latter in the 1970s. While in 1970 six merchant banks counted in The Banker's top 300, by the end of the decade they had all dropped out (The Banker, June 1971, and June 1979).

The remaining British overseas banks fared somewhat better. Following the merger which set up Standard Chartered in 1970 the latter moved from its base in Africa and the Far and Middle East into Euro-market, European and American operations, consolidating the latter in 1979 through the purchase of the California-based Union Bancorp, holding company for Union Bank, the 25th largest in the US. Falling somewhat in the middle years of the decade it managed to regain its rank of 59th by 1980, aided largely by the recent acquisition. Grindlays likewise diversified its activities geographically and functionally, most notably through the purchase of the merchant bank William Brandt. The latter, however, was badly wounded in the secondary crash of 1973-4, and Citibank (now Citicorp), the senior partner with Lloyds in the joint ownership of Grindlays, moved in to tighten its managerial hold on both Grindlays and its merchant subsidiary. Still, by the end of the decade Grindlays remained 174 in the world league, down from 121 in 1970 (The Banker, June 1971 and June 1980, and Channon, 1977, pp. 104 and 135-7).

The clearing banks likewise had an international dimension in the past, but as with much of British industry it had been traditionally located in the Commonwealth and other developing countries in historic spheres of British influence, whereas the growth markets of the post-war years lay elsewhere. With the gathering intensity of foreign, especially American, competition they again, like their industrial counterparts, began to rapidly adopt multinational strategies by the late 1960s, although these varied depending on international presence and organisational structure. On one end of the spectrum Barclays, which had the strongest international base through Barclays DCO, pursued the most committed independent multinational strategy. Starting from its existing branch network, which again was biased towards Africa and the Caribbean, it bought out the remaining shares in Barclays DCO (renamed Barclays Bank International), expanded its American and European operations and shifted the emphasis of its business abroad from retail to wholesale and corporate banking. At the same time it did co-operate with other financial institutions to the extent of joining the European banking "club", Associated Banks of Europe Corporation (ABECOR) and through it various consortium ventures. Midland at the other end followed a consortium approach, establishing correspondent relationships with other foreign, especially European, banks and participating in the founding of various consortium banks, starting in 1964 with Midland and International Banks, Ltd. (MAIBLE). Particularly through its participation in the correspondent club, European Banks International Company (EBIC), it gained large commercial and (with the collapse and majority buy out of Franklin National in 1974) retail operations in the United States, not to mention various other consortia in Europe and the Middle and Far East. By 1973 it too began to open representative offices in other financial centres and created a separate international division within its own organisational structure (Channon, 1977, ch. 7 and CLCB, chs. 2 & 12 and tables 48 and 49).

Lloyds and National Westminster chose intermediate paths leading increasingly towards the Barclays approach of establishing a direct overseas network. Eschewing consortium or club linkages Lloyds ran down its Latin American business, merged together and bought out minority interests in its overseas subsidiaries to form Lloyds Bank International in 1974, and like Barclays purchased a retail bank on the American West Coast in the same year, renamed Lloyds Bank California. National Westminster was originally handicapped by the lack of an international dimension but pursued an aggressive overseas strategy planting branches in the major financial centres of the US, Europe and the Middle and Far East and taking a 20% holding in a leading consortium bank, Orion (*ibid.*). In April 1979 it consolidated its international push by purchasing the National Bank of North America, a retail bank with 142 offices in New York City (Mergers and Acquisitions, Vol. 14, No. 3, p. 76).

In the late 1960s and early 1970s it seemed as though the consortium and club linkages mentioned above offered a major arena for future development, not only in Britain but throughout the advanced capitalist world. However, they were largely defensive in inspiration, mainly against the American banks with their multinational structure and diversified services. The consortium banks lacked unified direction and financial control in the decentralised mode of the multinational corporation. In the financial panic of 1973-4 they suffered a particularly severe liquidity squeeze, as depositors perceived their weaknesses, fearing particularly that parent or central banks might not support overseas subsidiaries if things got tough. While consortium banking survived that particular crisis, the trend since then has been away from loose groupings and towards streamlined organisations specialising in investment and merchant operations and particular product and geographic markets (Channon, 1977, ch. 9). By the mid-1970s the more significant trend was the movement of the clearing banks away from

short-term retail business and towards short and medium-term service for international corporate clients. Emulating the American "global financial conglomerates" like Citicorp they diversified geographically and shifted the core of their operations into the traditional provinces of the merchant banks, engendering severe problems for the latter (ibid., ch. 10). While somewhat late in adopting a multinational strategy and a universal banking structure, the clearing banks weathered the storms of the early 1970s and have since consolidated a new basis of strength, as the statistics and recent purchases enumerated above indicate.

The approach towards and eventual entry into the EEC in 1973 constituted an additional aspect of the changing political-economic environment in this period. As with the rest of British capital the City shifted towards a pro-European position in the middle of the 1960s when the pattern of future market development became clear. The perceived interests of finance and industry dovetailed in this particular case and corresponded, moreover, with the reassessment of British foreign policy that took place in the Foreign Office, the Treasury and the Bank of England at the same time, particularly after devaluation in 1967 (Jessop in R. Scase, 1980, pp. 70-4).

The prospect of Britain joining the EEC in conjunction with the transformation of the international economic context described above prompted a re-evaluation of the traditional attitude of British finance towards among other things the exchange rate of the pound. An article by John Cooper in The Banker postulated that "whatever happens to the sterling exchange rate, the City of London expects to gain from the Common Market," and foresaw further devaluation as a necessary condition of entry (The Banker, 1970, p. 1180). The same article noted the developments behind this reversal of attitude on the part of banking

capital, namely "the almost complete divorce which has taken place in recent years of the fortunes of the City of London as an international financial centre from the fortunes of the pound sterling" (ibid.).

In his explanation of the basis of this outstanding development he went on to note,

The prosperity of the City's international business depends in large measure on the willingness of the various British authorities to treat the City as an 'off-shore' island outside the controls imposed on domestic financial institutions; the failure of other financial centres to compete effectively for the City's international business results at least in part from the unwillingness or inability of other national authorities to take such a flexible line. The City thus has a strong interest in seeing that whatever institutional and regulatory arrangements are developed within the Common Market, it preserves the independent, 'off-shore' position vis-à-vis those arrangements that it currently enjoys vis-à-vis the domestic monetary arrangements in Britain (ibid., p. 1185).

A speech given a year later by the Governor of the Bank of England on "The City and Europe" struck some similar themes. Effectively scotching the notion that with British integration into the EEC sterling might become "the reserve currency of Europe", he expected the City to prosper despite the reduction of sterling's reserve and transaction roles. In particular the liberalisation of direct investment into the EEC and the expected rise of complimentary investment into Britain offered certain opportunities. He mentioned as well that,

There is likely ... to be a notable increase in investment by other EEC countries in those parts of the world that have traditionally looked to London as their source of finance, principally the countries of the Commonwealth and of the sterling area, a mobilising of resources for that investment, there will be ample opportunities for the financial institutions of the City to make use of their established connections (Bank of England Quarterly Bulletin, 1972, p. 85).

Perhaps the most interesting document analysing the rapidly changing international context and setting out a European strategy for banking capital was the report of the Inter-Bank Research Organisation (IBRO), The Future of London as an International Financial Centre. Commissioned in 1973 by the Central Policy Review Staff (the government "Think tank"), this set of papers offered a unique statement by those who saw themselves as City strategists. For that reason

we should investigate its proposals in some detail, although the report cannot be taken as the consensus view of banking capital but rather a programme promoted by the more articulate and farsighted spokesmen of the City.

In the most general terms the IBRO report saw the future as one in which a number of international financial centres, primarily London, New York and Tokyo would emerge, each servicing a major region of the capitalist world. London, it was assumed, should develop its links with the European financial system, not attempting to centralise all financial business in London, but maintaining the City's advantages and therefore its lead, while not discouraging financial activity elsewhere in Europe.

Thus a policy of encouraging unified financial markets in Europe, the free movement of trading and investment funds between Europe and the rest of the world, and a growing level of business in other European and world financial centres, will be the policy most likely to promote the long term commercial interests of London and the United Kingdom's financial services as a whole. It will enable us to contribute our special skills and experience to the European Community while maintaining our traditional outward-looking political stance in international affairs (IBRO, pp. 1-3).

It also foresaw the possibility of a hardening of these traditional groupings into regional discriminatory blocks, a possibility which has become more real in the present depression, but hoped to avoid this alternative since it would be "a serious blow to London's international position as a financial centre as well as to the United Kingdom's wider international interests" (ibid.).

The divorce of the activities of the City from the fate of the pound (and even the dollar) was also emphasised in the report as the basis for a needed re-orientation in the future planning of British banking and the relevant state agencies. Noting the historical links

between London's role as an international financial centre, British trade and particularly the export of capital and the international use of sterling, it argued that the City could no longer rely on these as bases for its future operations.

.... insofar as the strength of an international financial centre may continue to depend on its country's role as an international trader and exporter of capital, London will have to look in the future to the whole of Europe as its hinterland. But, it will be equally important to promote London's role as an entrepot financial centre [my italics], through which funds are channelled from one foreign country to another and whose services are used by foreign countries to facilitate their financial transactions with one another. Indeed, this may well be London's critically important future role (ibid., pp. 1-8).

IBRO saw these developments as tightly interconnected with the need for the City to become a multi-currency centre. Given the instability and likely decline of the dollar the danger lay in the possibility that the growing use of strong national currencies, e.g. the German mark and Swiss franc, could shift the international currency business towards other European financial centres. While remarking that British financial institutions had in any case picked up much business transacted in currencies other than sterling and the dollar, it nonetheless articulated the need for further state encouragement of this process.

It may be desirable for the government to encourage a considerable expansion of business in Eurocurrencies other than dollars, the development of the forward foreign exchange market to handle longer term deals, a significant increase in the number of institutions operating in London that are permitted to undertake foreign exchange dealings, the introduction of multi-currency clearing facilities, and the adoption of a common European currency unit for financing internal and external Community trade and investment. In other words, the government and the City should probably regard London's future role as being that of a multi-currency financial centre, rather than one whose activities are based primarily on sterling and the dollar (IBRO, pp. 1-20).

In the same vein the report saw the commitment towards harmonisation of financial institutions and policies within Europe as a potential danger which could be turned to the City's advantage if harmonisation led to the general liberalisation of financial controls

and not equivalent restriction. This in turn posed the question of the need for co-ordination of City interests within the EEC and the British state, the adequacy of the Bank of England as the traditional agent of banking capital and so on. However, we will return to these considerations shortly.

With regard to the changes in international business activity, IBRO emphasised the growth of multinational operations as the most significant trend, in particular because it was altering the demand for financial services in international trade. Companies operating in several countries had to manage their cash flow on a multi-currency basis, taking account of different tax systems, exchange rates and other national differences requiring different financial services than the one-country firms of the past.

This is one reason why international and multi-national banks are now beginning to emerge - to serve the growing demand for international financial services. Another main reason is that sources of supply funds (i.e. the capital and money markets) are also becoming international We have seen the creation during the last few years of international consortium banks and of international groupings (such as that in which Banco di Roma, Commerzbank and Credit Lyonnais are participating) which could well be the first steps towards the single, merged, multinational banks of the future. Similar developments are taking place in insurance. The chairmen of various European stock exchanges have said that they envisage the steady development of closer links between London and other stock exchanges (IBRO, pp. 1-17).

It went on to note that the location of headquarters of these future multi-national institutions would strongly influence what city would emerge as Europe's financial centre. While the significance of these banking consortia was understandably overstated at the time, for the rest the report accurately forecasted the development of London over the rest of the decade. As noted above the continued success of the City in sharp contrast to British industry by the early 1980s hinged largely on its capacity to adopt many of the proposals recommended in the report, not that the latter was anything more than an impressive

witness to this process.

The final feature of the changing political-economic context which in turn had a dramatic effect on the formulation of British economic policy in this period was the collapse of the world monetary order that had existed since the Bretton Woods Conference at the end of World War II. In truth the multilateral world system had been in trouble ever since its crowning moment, the return to British and European convertibility in 1958. The growing deficit on the United States balance of payments through military and government expenditure (especially as the Vietnam conflict hotted up), the renewal of US foreign direct investment and eventually the deterioration of the balance of trade began to take a growing toll on US gold reserves, as the dollars pumped into the world economy were converted back into a more secure asset. In short the very process that more than anything spurred the revival of the City from the late 1950s was at the same time undermining the world monetary system as the inflated dollar became an increasingly unstable reserve and transaction medium. When the devaluation of the pound in 1967 unleashed an expected wave of speculation against the dollar and a rapid drain of US gold reserves, the American government responded with a unilateral and increasingly beligerent economic measures against the other main capitalist powers. Starting with capital controls in January, 1968, the Johnson administration within a few months dissolved the gold pool (the agency for stabilising the dollar-gold exchange rate in London) and consequently introduced a two-tiered market for gold, retaining the \$35 per ounce exchange rate only for the official market. At the same time various advisors within the administration began to formulate plans for a tariff surcharge on imports and for the use of political and economic muscle to force countries with balance of payments surpluses to absorb the full brunt of the inevitable exchange rate adjustments (F. Block, chs. 5-8, esp. pp. 193-202 and M. Hudson, chs. 10 and 11).

By August 1971, the Nixon administration effectively encapsulated this new "passive" strategy towards the balance of payments, announcing the "end of US hegemony" with its New Economic Policy (Sweezy and Magdoff, 1972, pp. 197-212). This quite simply knocked down the twin pillars of the multilateral world regime; it broke the link between the dollar and gold by closing the official gold window, and it imposed the 10% import surcharge muted a few years earlier. Following the British example ("we are all Keynsians now") Nixon likewise imposed wage and price controls to demonstrate his resolve to fight domestic inflation and thus support the existing dollar exchange rate. After three months of diplomatic wrangling in the wake of this shattering announcement a Group of Ten meeting at the Smithsonian Institute in Washington in December 1971, agreed a new package which involved mainly concessions to the Americans. A slight devaluation of the dollar against gold and the removal of the import surcharge were more than matched by further revaluations of the Deutsche Mark and the Japanese Yen. However, despite Nixon's proclamation of the meeting as "the most significant monetary achievement in the history of the world", this new system of "central" fixed exchanges with wider bands for minor fluctuations lasted only a few months before first the dollar and then the pound came under renewed attack. By mid-June 1972, the pressure on sterling could not be contained, and from 23 June the pound was floated, falling to a (then) record low of \$2.32 by October. In early 1973 pressure shifted back to the dollar, and the US government had to negotiate another currency realignment that included a 10% devaluation of the dollar. As this failed to stop the speculation, the Germans, who had received the brunt of the run from the dollar agreed to a joint float of EEC currencies against the latter, the final nail in the coffin of the Bretton Woods regime of fixed exchange rates (Block, op. cit., Balogh, 1973, pp. 26-45 and Strange in A. Shonfield, 1976, pp. 320-54).

The Emerging Crisis of British Industry

While British banking overcame its moment of crisis in the early 1970s and reestablished itself at the forefront of international finance, the progress of industrial capital was not so auspicious. This is not to say that the post-war period was one of stasis for British industry, far from it. The industrial sector as much as the financial experienced strategic and structural transformation and for much the same reasons. Again the impetus for change originated in the erosion of traditional markets at home and abroad, the intensification of international competition that accompanied the establishment of a multilateral world trading regime and the invasion of first American, then European and Japanese multinationals. British entry into the EEC both confirmed and gave further encouragement to this process. However, the capacity of British industry to reverse its historic decline seemed increasingly remote by the late 1970s. Despite (or partly because of) government efforts in the past two decades the United Kingdom's share of world trade in manufactures continued to fall from 12.7% in 1960 to 8.6% in 1970 and 7.0% in 1978, reflecting rates of growth, productivity and investment that continued to lag behind her main competitors. The ratio of manufactured imports to GNP grew from 4.6% to 14.2% over the same period (Cambridge Economic Policy Review, April 1979, p. 3).

In this increasingly competitive environment British industry had to adapt rapidly simply to stand a reasonable chance of survival. Whereas the slump of the inter-war years had encouraged inter-firm collusion through cartels and the erection of political barriers by way of Imperial Preference, both of these forms of restricting competition expired slowly but inexorably in the post-war decades. Multilateral

trade agreements such as GATT, changing patterns of trade and the overseas expansion of American and other multinationals gradually eroded the protected markets of the sterling block, which in any case were relatively stagnant, a process which culminated with Britain joining the EEC. The share of visible exports destined for the Overseas Sterling Area (OSA) countries declined from 34.6% in 1963 to 19.5% in 1973, while the EEC proportion of the total grew from 21.1% to 31.5% in the same period. By 1978 the EEC was absorbing 38.6% of British visible exports, partly reflecting the inclusion of new members to the Community but significant none the less. Similarly, the developed countries of the world together received over two thirds of British exports by the latter date, and the British share of OSA imports suffered a corresponding decline (CSO, 1974, p. 11 and 1979, p. 20). At the same time most cartels simply disintegrated in the 1950s under the twin pressures of post-war expansion and the anti-restrictive practices legislation of successive governments, although some (like GEC - AEI - EE) hung on into the 1960s (when the three firms merged together with the support of the Labour government) (Hannah, 1976, ch. 9, and Jones and Marriot). Concentration of capital and diversification mainly into related product and geographic markets now replaced cartelisation and tariffs as the prime means of controlling competition with most of the top manufacturing firms adopting multi-national and multidivisional forms of organisation by the early 1970s.

Concentration proceeded rapidly, particularly in the merger boom of the late 1960s. The share of the largest 100 firms in manufacturing net output leaped from 21% to something over 40% between 1948 and 1970. However, this trend did not arise primarily out of technical economies of scale reflected in a parallel increase in plant size. The share of the 100 largest establishments (factories) in manufacturing net output remained virtually constant at around 10% from 1930 onwards.

While there was a tendency for the size of the "typical" plant to grow, it was not of the same magnitude as the growth rate of the largest firms, and, moreover, was accompanied by a spreading of the "central range" of sizes which account for half of manufacturing employment. To put it simply the trend in plant size had been far too diffuse and ambiguous to account for more than a small fraction of the pattern of concentration in manufacturing enterprises. (Prais, 1976, chs. 1 and 3, and Hannah, 1976, ch. 7). Financial factors appear to have been of far greater significance in the rapid growth of the major industrial firms. These financial pressures included the growing proportion of industrial shares held by institutional investors and the rising gearing ratio (ratio of long term loans to equity capital) of industrial firms (both of which we shall look at more closely below) as well as the need to spread risks and diversify operations in the face of foreign and domestic competition and the greater vulnerability to take-overs as a result of the dilution of equity held by owner-directors (Prais, 1976, ch. 5). The impression that financial aspects were largely responsible for rapid concentration in the industrial sector is reinforced by the close correspondence between the latter and merger activity in the 1950s and especially the 1960s (not to mention the 1920s) (Hannah, 1976, ch. 10). The combination of these factors meant that by 1970 the typical large industrial concern had pursued a pattern of growth less by means of internal expansion than through acquisition of or merger with other firms and was thus comprised of a multiplicity of plants and formerly autonomous enterprises of varying sizes.

The strategies and structures of these dominant manufacturing corporations followed a corresponding evolution. Starting in the electrical, chemical and engineering industries in the early post-war

years diversification into new product and geographic markets spread throughout the industrial sector by the late 1960s. In 1970, 94 of the top 100 manufacturing firms had diversified to some extent from their original product lines, 72 had adopted a multidivisional structure in some sense and some 50 were operating in six or more countries (Channon, 1973, ch. 3). Yet, diversification was essentially a defensive response to foreign competition and a simple consequence of the merger activity and growth through acquisition described above. More often than not it was not part of a consciously planned strategy "but more a sequence of ad hoc opportunistic moves almost in desperation to gobble up potential sources of entry into related product markets" (*ibid.*, p. 240). Moreover, diversification and merger were accompanied at best initially by extreme decentralisation as represented in a holding company structure where the head office operated virtually as a banker to the various divisions, leaving all non-financial decisions to local (often formerly independent) management. In 1960 for example Channon estimates that some 40 firms in the above population had adopted a holding company structure (*ibid.*, ch. 3). While this proportion undoubtedly declined over the next decade, it seems likely that the formal and rather simplistic classification system employed by Channon among others has overestimated the trend towards centralisation and divisional structure in the American mold. Much of British industry in other words has retained the decentralised mode of operation characteristic of the holding or "federal" company despite the rapid concentration of capital in the past thirty years, a structure which has proved remarkably resilient in the face of chronic difficulties (Child and Francis, 1977).

The underlying logic of this particular path of structural evolution has been illustrated in an examination of several motor components suppliers in Midlands engineering industry, a study which

almost certainly has wider implications. On the one hand financial concentration overcame the limits imposed by the traditional practice of self-financed investment as corporate finance departments utilised the greater assets of the merged firms to obtain easier access to both the increasingly active debenture markets and state subsidies while at the same time preserving existing trading alliances with motor manufacturers and thus securing market outlets. On the other the retention of decentralised control in such areas as manpower management, labour relations and production supervision served the dual purpose of satisfying the aspirations of (formerly independent) "enterprise" management by retaining traditional lines of authority and promotion as well as recognising the long-established but localised power of workplace and shop steward organisations. In pursuing such a strategy (if it can be called such as it was really a sequence of ad hoc responses to mutually reinforcing pressures from various sources) management could minimise and contain conflicts which otherwise might disrupt production runs, marketing deadlines, etc. (Loveridge, 1979). However, the perpetuation of this fragmented control structure also precluded the introduction of planning procedures and this correspondingly prolonged the short-term profit, production and market orientation which at least some authors have associated with the long-term decline of profitability in British industry. Similarly, changes in productivity by way of "rationalisation" of the components industry in the 1960s occurred mainly through "the elimination of many small establishments that did not come under the 'umbrella' offered by the federal company" with the remaining firms registering only small increases (ibid., p. 21).

The structural transformation of industrial capital in the 1960s thus did not resolve the cumulative problems associated with its relative decline vis-à-vis its main foreign rivals. Briefly stated financially inspired concentration could not in and of itself overcome

the barriers to greater competitiveness, the latter consisting primarily of financial dominance in state economic policy formation, the historic separation of the financial and industrial sectors and the defensive capacity of working class organisations particularly at the point of production. While I shall return to the questions of the relations between finance and industry and economic policy in the next sections, it is the issue of the effects of worker organisation that I wish to consider briefly at this point. For the historic weakness of British industry became the focal point of economic and political controversy in the 1970s as stagnation in the level and rates of growth of productivity, investment and GNP combined with the related problems of import penetration and a deteriorating balance of payments to produce a situation of virtually permanent crisis. First noted by two neo-Marxist economists the decline in pre-tax rates of return of British industrial and commercial companies was disguised until the early 1970s by the use of accounting techniques which had not adapted to a period of high inflation (Glyn and Sutcliffe, 1972, ch. 3). Briefly stated, rates of return must be measured net of stock appreciation and capital consumption at current rather than historic costs if one wants to take account of their "real" rather than inflated values, i.e. the surplus available for investment or distribution to shareholders. While these issues were hotly debated in recent years, at present at least a broad consensus exists on the predominant trends (King, 1975, Panic and Close, 1973, Glyn, 1975, Burgess and Webb, 1974). On the basis of the most recent estimates pre-tax real rates of return on trading assets showed a long term secular decline from around 12% in the early 1960s, to about 9% in the early 1970s. They fell sharply to 5% in 1974-76 as accelerating inflation and economic slump prompted a liquidity crisis, from which point they revived slightly in the recovery of 1977-78. However, by 1979 rising costs (especially of raw materials) and the appreciation of

sterling had eroded British competitiveness to such an extent that the rate fell to 4%, the lowest ever recorded. The share of pre-tax profits in domestic net income has demonstrated a parallel trend, although the decline by this measure was less sharp, reaching 8% by 1979 (Bank of England Quarterly Bulletin, June 1980).

Whether measured as a rate of return on trading assets or as a share of domestic income the long term decline in pre-tax profitability undoubtedly had a severe affect on investment (*ibid.*, Dec. 1978). The valuation ratio ('q'), which is a summary measure of the relationship between the real rate of return and the cost of capital, likewise declined slowly in the 1960s and early 1970s as the cost of capital rose while the rate of return dropped in 1974. Since that date this ratio has remained below unity, indicating a low incentive to invest (*ibid.*, June 1977, and June 1980). The average post-tax rate of return did not, however, register the same collapse as the other measures of profitability in the 1970s. Reflecting the reduction of the burden of company taxation following the extension of 100% allowances on plant, machinery, ships and aircraft across the country and the introduction of retrospective stock relief in 1974, post-tax rates fluctuated between 4 and 5% from 1965 onwards, down somewhat from the early 1960s but more or less stable. Stock relief proved particularly important in this regard as without it the post-tax rate of return would have been close to zero in the years after 1974 (*ibid.*). Indeed, this measure so completely mitigated the burden of "mainstream" corporation tax that by 1977

the situation had been reached where for the 'average' industrial company corporation tax [had] effectively been abolished. Many of them [had] negative taxable profits while still being in a position to pay dividends, and [were] building up unrelieved tax losses which they will carry forward to offset future years' tax (Kay and King, 1978, p. 198).

The question remains what relationship did this (by now) well-documented decline in profitability before tax have with trade union

organisation and the growing militancy of workers from the late 1960s.

Glyn and Sutcliffe in their original analysis offered a fairly unambiguous view on the causal links between the two. They argued that increases in money wages cut into profits from the mid-1960s as firms were unable to pass on the subsequent rise in costs as higher prices because of the simultaneous intensification of international competition (Glyn and Sutcliffe, 1972, pp. 59-65). The main problem with this suggestive but rather simplistic argument is that real wages after tax were more or less stagnant in the 1960s, even declining between 1965 and 1969 when Labour pursued a fairly effective policy of income restraint (Cambridge Economic Policy Review, No. 2, p. 26).

During the same period productivity was rising on average 3% per annum, so the direct relationship postulated by Glyn and Sutcliffe between workers' income and the decline in profitability seems implausible. The intervening variable here is the growth of state receipts, particularly in the form of taxes on income from work as the combination of a progressive income tax structure and inflation drew more manual workers into (higher) taxable brackets. Planned state expenditure, especially on investment, did not increase to the same extent as tax receipts, as governments of both parties chose neither to raise the former nor to cut the latter to fully even out the discrepancy. Put slightly differently employers' costs were set by the growth of gross money wages, while demand for their products was determined by the smaller rise in net wages. These conditions would ceteris paribus produce excess capacity, and employers could only either raise prices to meet costs and thus lower real demand, or not raise prices the full extent and accept lower profit margins. The latter course seems to have been the one followed, partly no doubt due to the extent of international competition noted by Glyn and Sutcliffe, and partly because the true extent of the drop was disguised by current accounting practices. This in turn contributed to rising unemployment by the early 1970s, as it inevitably hit planned

output growth and future investment (Jackson et al, 1978, ch. 3, especially pp. 101-3, and Panitch, 1977).

Thus the relationship between real wages and real profit rates was not direct but mediated by state management of the economy, namely the effects of orthodox Treasury policy of treating inflation (also closely related to the effects of taxation and real earnings) as a problem of excess demand (or lately monetary growth) (*ibid.*). In 1971-72, 1974-76 and probably 1979-80, the wage explosions that followed periods of severe restraint did result in post-tax wage rates at settlement rising above the overall trend rate of 0.75% per annum and in that sense probably contributed to the acute profitability and liquidity crisis in the middle years of the decade (as well as the one predicted for the near future). For the most part, however, the trend rate in real wage growth has remained below or roughly equal to that of production per head, and the decline in profitability is more readily explained by the depressed demand forcing firms to operate below normal capacity, thus incurring higher unit costs (Cambridge Economic Policy Review, No. 5, Ch. 3). The main point of the argument still holds; that worker demands for higher wages in and of themselves cannot explain the decline in the rate of profit; actions taken by state agencies are critical in determining the distribution of income to various factors and the overall level of demand, both of which impinge directly on profitability.

A weaker version of this argument seems more plausible, namely, that the defensive power of labour organisations not only impeded the structural adaptation of British firms, as described above, but precluded the resolution of the crisis of the 1970s through a reduction in real wages. The ability of workers to defend their living standards as represented by the above trend rate of real wage growth despite

growing unemployment and successive governments' attempts at "voluntary" or statutory wage policies, meant that unions and local organisations constituted at the very least a barrier to certain kinds of "solutions" to the growing problems of profitability, inflation and competitiveness. Similarly, the historic pattern of industrial relations and the widely diffused tradition of worker influence (if not control) at the point of production almost certainly contributed to the relatively slow diffusion of new techniques and low growth of productivity that has characterised the manufacturing sector for some decades (Kilpatrick and Lawson, 1980). In any case the perceived power of labour organisations combined with the severe problems of the manufacturing sector no doubt contributed strongly to the hardening of industrial attitudes in the 1970s. Increasingly the post-war settlement and the politics of a "producers' alliance" became untenable as industrialists saw lower inflation and wage reductions (even at the cost of higher unemployment) as their only salvation from the profits squeeze, and worker aspirations for even a moderate rise in real incomes proved "unrealistic" in the face of virtually stagnant output. These, then, were the tensions between industry and labour which underlay the political conflicts of a rather dismal decade.

The Changing Relationship of Industry and Finance

Various authors have maintained that the historic separation of industry and finance outlined in earlier chapters has broken down in the post-war era as personal and financial ties proliferated between the two sectors. My prime concern is the political relationship between banking and industrial capital, but, since I have argued that their distinct political priorities have had in some sense an economic foundation, the proposition that the two sectors have joined at the economic level ought to have important implications regarding their political conflicts (or lack of them). Traditionally Marxists have followed Hilferding and Lenin in arguing that especially for imperial powers advanced capitalism is characterised by a fusion between these two fractions, as indicated by the term finance capital (Hilferding, 1968, and Lenin). From this perspective large capital is not divided "horizontally" between sectors or circuits but "vertically" between weakly competing (or co-operating) interest-blocks, each of which are composed of a closely knit group of industrial, financial and commercial firms. Evidence for this view is typically drawn from a few main sources, interlocking directorships, shareholdings by financial institutions and to a lesser extent kinship connections and "social networks" as described by school and university attendance and club affiliation. In general this evidence is marshalled to show the fundamental unity of the dominant elite underlying the fairly superficial divisions into interest groups, and the strategic position of finance in this web of interconnections.

In the British case several studies have demonstrated the extent of interlocking directorships in the post-war period "as the spheres

of finance and credit have become increasingly integrated with the spheres of production and trade" (Aaronovitch, 1961, p. 37). Interlocks are particularly characteristic of large corporations which are not family controlled. More significantly financial institutions are more closely integrated, and the interconnectedness of major industrial firms increases significantly when their common links with the former are taken into account (ibid., ch. 3, Barrett Brown, 1968, and Whitley, 1974). Thus, from an interest group perspective financial institutions, especially the merchant banks, play a crucial role integrating disparate industries and coordinating their broad financial strategies. This view is reinforced by the fact that many of the links are of recent origin and associated with the involvement of the City in the frenetic merger activity of the late 1960s (Spiegelberg, chs. 2 and 3). Kinship connections and social networks suggest substantially the same picture as again there exist some significant differences between the two sectors. Directors of large financial institutions, especially merchant banks, are more tightly connected on kinship lines drawn from the traditional aristocracy and more exclusively recruited as demonstrated by educational background and club memberships, although as regards kinship industrial and financial directors together show about the same degree of integration as the City taken on its own (Whitley, 1974, and Stanworth and Giddens, 1974). Looking at share ownership the growing importance of financial institutions, especially insurance companies, investment and unit trusts and pension funds has been frequently noted. Between 1963 and 1975 personal holdings in British companies fell from 54 to 37.5% of market value, while those of financial institutions rose from 30.5% to 48%, and pension funds alone grew from 6% to 17%. According to one estimate by the end of the present century institutional investors might hold as much as 70 to 85% of the market value of UK equities (Wilson Committee, Progress Report, 1977, pp. 20-1).

Marxist theorists have generally concluded from this sort of evidence and parallel research with regard to other Western countries that banking and industrial capital are increasingly "fused" and that the former exercises strategic control over the latter in the resulting interest group formations. This rather simplistic perspective has, however, been effectively criticised for failing to take account of the rather distinct national paths of capitalist development and for conflating the process of centralisation of capital with the formation of a "personnel union" in which financial directors sit on the boards of various corporations. The total picture is thus one of necessary evolution towards the active direction of the economy by an ever smaller circle of financiers and industrialists with the former presiding.

Sweezy has argued that this predominance of finance capital in the sense of detailed and direct control over financial controls might be true of certain periods of capitalism, namely those characterised by extensive combination of capitals which typify in his terms the transition from competitive to monopoly stages. After the period of transition the function of issuing new securities, the source in his view of the banks' strategic position in the control of capital, declines in significance while self-financing becomes the major means for raising investment funds. Thus, with these internal sources of additional capital at their disposal corporate managements are to a greater or lesser degree freed from their dependence on the market for new securities as a source of capital, and by the same token they are freed from their dependence on bankers (Sweezy, 1968, p. 267).

This treatment of the problem of periodisation is as inadequate as that of Hilferding and other Marxists, however, on at least two grounds. As is clear from the above statement Sweezy believes that

once capitalism has matured concentration will take place only through the process of accumulation and not through the centralisation of capitals. Empirically, the post-war period and especially the merger boom which began in the 1960s have made nonsense of this claim, although it is largely true that self-financing is still the major source of capital for industrial corporations in the UK and the US. On the Continent, however, internal sources have not assumed the significance that they did in the latter two countries, as we shall document below. His inability to see the possibility of variation reflects as well the theoretical inadequacy of his presentation, the transition to "monopoly capitalism" as a unilinear, evolutionary development from childhood to maturity. Sweezy's generalisations about "monopoly capitalism" are as coloured by national experience as Hilferding's treatment of "finance capital". Neither offers a theory of periodisation capable of coping with the variations that have actually characterised capitalist development at different times and in distinct national contexts.

Scott has offered a more sophisticated and in my view preferable version of the "finance capital" thesis. In his view the above evidence indicates the existence of several complementary trends. In Britain as elsewhere in the advanced capitalist world strategic control is passing from personal to impersonal forms as indicated by the shift from direct family majority ownership to minority but controlling ownership by "constellations of interests". Financial intermediaries play a pivotal role in this transition through the growing proportion of company shares they hold as well as their central position in the "communications network" of interlocking directorships. The influence of financial institutions thus occurs not by way of direct management of industrial and commercial companies nor as a conscious strategy.

but rather as the unintended consequence of a particular set of relations and informal practices (Scott, 1979, especially chs. 3 and 4). Scott's argument here draws from that of Hussain and Thompson, who reach parallel conclusions from a rather different point of departure (Hussain, 1976, and Thompson, 1977). For these authors the term finance capital defines a particular articulation between banking and industrial and commercial capital in which the former is dominant. This set of relationships requires certain preconditions, including primarily 1. the existence of a market for financial assets, 2. the centralisation of finance capital and the development of specialised financial institutions, and 3. the development of fiduciary and credit money, which together serve to extend the sphere of credit in terms of volume, time period and coverage of other sectors of the economy. As such finance capital can be institutionalised in different ways, whether through the mechanism of long-term loans and close organisational ties between banks and industry as in many Continental countries or the medium of an extensive stock market and organisational separation characteristic of Britain and to a lesser degree the US. In either case

the dominance of finance capital rests on the existence of a wide spectrum of credit forms and an extensive credit network which affects the distribution of means of production in all branches of production (Hussain, 1976, p. 15).

That is, it is the lending and borrowing practices of the financial sector that constitute their particular mode of economic control or effective possession. These practices determine where accumulation can take place (internationally as well as nationally), whether investment funds are raised internally or externally, and whether external funds come as shares, loan capital (bonds and debentures) or short term bank loans. Even firms raising a large proportion of investable funds from retained earnings are subject to at least an indirect constraint in that the informal practices of finance capital

determine what counts as a prudent or acceptable performance, and hence a firm's financial viability as measured on the stock exchange. As Thompson points out, "'Reasonable' profit margins must continually be returned otherwise a run on the company's shares can ensue in which takeovers loom" (Thompson, 1977, p. 268).

The latter versions of the finance capital thesis are a vast improvement over the more orthodox varieties and offer a useful framework for investigating the relationship between the financial and industrial sectors in Britain, despite certain prominent weaknesses. In Scott's formulation the question still remains to what extent does the growth of interest constellations, impersonal control and a network of interlocking directorships actually affect the performance of modern large corporations. As I argued above financial factors obviously influenced the pattern of concentration in British industry. However, the mode of "operational control" of "effective possession" at the point of production cannot be adequately explained without reference to other factors, like the customs and strategies of enterprise management and worker organisations. Moreover, as I argued above, these patterns at the local level have functioned as a constraint and significant influence upon the mode of strategic control exercised by central office management. Secondly, in putting the case for a generalised mode of financial control Scott as well as Hussain downplay national differences in the way in which the relationship between finance and industry has been institutionalised. The same is true of at least the theoretical argument proffered by Thompson, although the bulk of his evidence points precisely to the significances of the form of institutionalisation and the related practices of financial institutions as regards the performance of industrial and commercial

corporations¹. In what follows I will argue that the institutional separation and the structure of relations between finance and industry in Britain have continued despite the existence of the various trends noted above. The frequently announced "fusion" of the two sectors has been premature, although certain changes may herald a more closely knit relationship in the near future. Finally, the institutional separation of the two, the form of economic relationships and consequent practices has had real effects on industrial performance and posed a significant barrier to the regeneration of British capitalism.

One can best perceive the effects of the institutional separation of finance and industry by looking at the mode of financing investment. In the first place British investment in domestic manufacturing industry is low by comparison to the other main capitalist nations. Over the period 1966-71 gross domestic fixed capital formation in the UK was approximately 55% of that of Germany and 64% of France. In 1972 investment levels per capita were £28,200 for the FRG, £20,400 for France and £12,000 for the UK (Samuels et al, p. 2). As an average over the years 1960-72 the percentage of GDP devoted to manufacturing investment was for the UK 3.8%, FRG - 4.9%, France - 6.9% (not including 1972), the US - 3.1%, Japan - 8.9%, Italy - 6.4%, Belgium - 5.5% and the Netherlands - 8.4%. In other words the only major capitalist country with a lower percentage was the United States, and, as that figure excludes public investment it should be discounted (NEDO, 1975, p. 11). Investment is of course not the only factor in

1. A more recent elaboration of the Thompson/Hussain argument resolves this particular contradiction, and much of what I have to say below is in broad agreement with their conclusions, even if it does not share their epistemological framework (See Cutler et al, Vol. II, 1978).

in expanded accumulation, growth or national competitiveness. In particular I argued above that productivity constitutes another important aspect and that traditional shop floor practices, union organisation and defensive power, etc. could be taken as a sufficient constraint on productivity growth. However, the level of investment is bound up with productivity in a way which makes it difficult if not impossible to isolate one variable from the other. One can at least claim that a low level of investment, *ceteris paribus*, will place a limit on growth and productivity. As one study of finance and investment put it from a somewhat different perspective,

... it should be appreciated that even if the British worker or trade unionist is not as co-operative as those in some other countries, if he only has half the amount of equipment and machinery to work with as his European counterpart, he and the country are already at a disadvantage before one takes into account anything else at all, let alone nebulous notions like national character (Samuels et al, p. 13).

Not only has British investment, especially in manufacturing, been low both in absolute and percentage terms by comparison with her main competitors, but it has followed the same secular decline as the trend in profitability in recent years. Gross and fixed capital formation for industrial and commercial firms fell from around 9 - 10% to under 7% of their fixed capital stock in the period between 1960 and 1976 (Bank of England Quarterly Bulletin, June 1977, p. 157). The general trend and cyclical pattern of investment appears to be closely related to the real rate of return and the valuation ratio as described above (Wilson Committee, Vol. II, p. 7). The decline in profitability, particularly when coupled with the recent rise in the cost of capital, seems to have had a parallel effect on industrial investment. This relationship is particularly marked given the traditional importance of retained earnings as a source of investment finance. According to one estimate external funds account for some 15.5% of total physical investment over the period

1964-73, while comparable figures for the US and Japan were 31.3% and 31.6%, respectively, with France and Germany falling in between (NEDO, 1975, p. 53). While internal sources decreased as a percentage of total funds from approximately 90% in the early 1950s to 80% by the early 1970s, this trend essentially reflected the decline in profitability and fluctuations in the business cycle (ibid., p. 57, and W.A. Thomas, 1978, p. 218). Greater reliance on the banks and capital markets in recent years did not make up for the fall of internal income as the trend in gross investment indicates. More significantly both in the period up to the mid-1960s and the early 1970s the company sector as a whole was a net lender to the rest of the economy, despite heavy bank borrowing in the later years. This pattern was reversed in West Germany, Japan, France and the US, where the financial surplus of other areas of the economy was funnelled into company finance (Hu, p. 46 and Thompson, p. 274). Thus, the overall position of the flow of funds between sectors reinforces the significance of internal funds as the primary source of investable income, hence, the overwhelming concern among industrialists about the level of profits in the crisis years of the 1970s.

While some authors have taken high self-financing ratios as indicative of managerial independence from financial constraints, they are more properly viewed as a result of the practices of the financial system and in relations with industry, i.e. reflections of the conditions which govern lending and borrowing. The conservatism of British banking capital as a provider of external finance has been documented in various sources. Of the three main types of external finance, shares, marketable debt (bonds and debentures) and bank loans, the first two are provided through the securities markets. Remarkable as it may seem, the London Stock Exchange, although easily the largest and most sophisticated in Europe with by far the highest

number of quoted companies and the largest turnover, raises fewer new issues in absolute terms for industrial and commercial companies than the French or West German bourses (Samuels et al, p. 82). Between 1963 and 1973 the issue of shares on the domestic market averaged 0.49% of GNP in the UK, while comparable figures for other countries were US - 0.65%, Japan - 1.50%, West Germany - 0.52% and France - 0.87%. The new issue market for equities has also demonstrated considerably greater volatility than those of the other major capitalist countries apart from the US. This volatility reflected both the stop-go policies of various governments and the business cycle but also more significantly the activities of institutional investors (Hu, pp. 30-35). The London Stock Exchange operates primarily as a secondary market for existing shares rather than a market for new securities as indicated by the very high turnover rates in which institutional investment figures prominently. Over two-thirds of its business is in government securities and its role in external finance for industry tends to be limited to a relatively small group of "blue chip" companies (Thompson, p. 263).

If one includes new issues of bonds, debentures and preference shares, the proportion raised through the securities markets rises considerably over the period 1964-73, but as mentioned above net external finance still remains significantly lower on average for the period than that of other major capitalist countries. Moreover, from 1973 the fluctuation in inflation rates increased the risks of fixed-term borrowing, and the market in new issues of debentures and loan stock virtually dried up (Bank of England Quarterly Bulletin, June 1980, pp. 193-5). In recent years the leasing of capital assets from financial institutions has become an increasingly important source of finance for industrial and commercial firms, largely because of the tax advantages afforded by initial capital allowances.

The Equipment Leasings Associations, which represents about 80% of the business, has estimated a growth in the annual acquisition of assets for leasing from £0.1 to £1.8 billion between 1972 and 1979. By comparison new share issues averaged £0.8 billion in the years 1976-79 (ibid.).

In addition those countries, primarily Britain and the United States, which have relatively high self-financing ratios also tend to depend more upon the securities markets as sources of external finance. This means that their investment decisions are constrained by the short-term orientation imposed by the "free-market approach" to capital funding, particularly given the growing role of the fund managers in company securities. This point was best expressed by the Deputy Director General of the CBI at a seminar on "What Industry Expects from the Banks" in November, 1974:

Few companies can operate efficiently if the management is concerned to see that the actual profit declared each year should show at least a modest improvement on the previous year. Ideally companies should be in a position to opt - if necessary - for short-term downturns in profitability or cash flow if this is due to major investment or restructuring designed to accelerate growth and profits in the medium and long term. And yet managements - because of the markets' preoccupation with the short term - can be inhibited by the share valuations. The market does not readily accept deliberate short term policies to utilise cash flow for longer term benefits This has accentuated the constraint placed on company managers to achieve a steady but as a result slowly growing profitability (cited in Hu, p. 60).

Looking at the lending practices of commercial banks, again certain distinct aspects of British clearing banks seem prominent. British bank loans have traditionally been predominantly short-term, usually in the form of overdrafts. Although in practice overdrafts are often "rolled over" to finance investment as well as current costs, this form of lending likewise imposes certain constraints in that banks usually demand security as represented by a firm's

liquid assets and debt profiles. Longer term loans offered by banking systems in other countries, notably Germany and Japan, have encouraged a longer view on company performance. Similarly, as over-draft facilities are open-ended while longer-term loans are usually designated for specific projects, the latter have been associated with closer relationships between industry and finance in countries where these practices are more common (Thompson, pp. 263-4, and Hu, ch. 4). This form of finance has become increasingly important in the 1970s as bank advances rose from just over 40% of the net debt of industrial and commercial firms in 1970 to 75% in 1979. The danger of this form of finance is best illustrated by the liquidity crisis of 1974 when interest payments (primarily composed of variable rate short-term bank loans) absorbed as much as 40% of gross company income (Bank of England Quarterly Bulletin, June 1980). However, one should note that in recent years British clearing banks have increased the proportion of medium-term lending as they moved into corporate finance following their American competitors and the introduction of Competition and Credit Control. One recent review of these figures, admittedly very approximate, estimated that some 15% of clearing bank's lending to British industry took the form of term loans, whereas medium and long-term loans accounted for over half the bank lending to industrial companies in Germany, France, the United States and Japan (Hu, pp. 28-29). On the other hand the clearing banks themselves have claimed that contractual term lending accounted for as much as 40% of total sterling and foreign currency lending to UK non-personal borrowers (a wider sector) in 1976 (CLCB, pp. 101 and 276). If the internationalisation of finance capital has thus affected the practices of British banking, it is nonetheless true that significant national differences still remain. Whether through the banks as in the US, Germany and Japan, holding companies as in Italy and Belgium, or institutions like the Banques d'Affaires and Caisse des Dépôts in

France, foreign banking capital tends still to be more directly involved in industry than is the case in Britain (Readman and Hu). Moreover, the clearing banks face the continual problem of matching medium term loans with equivalent deposits. The absence of a central rediscounting facility as available in some other countries places a limit on the extent to which British banks can safely increase their term lending.

The financial practices of the banks also affect corporate finance through the criterion by which loans are offered. Appraisal of borrowers is usually approached through backward-looking analyses of profit records and balance sheet ratios. Financiers and industrialists both take the capital gearing ratio as the single most important criterion of credit worthiness, i.e. the ratio of debt to equity finance. Average gearing ratios vary widely country to country, reflecting the greater reliance on fixed interest debt elsewhere mentioned above. The following table indicates an estimate for these ratios for 1972:

Japan - 2.96
Italy - 1.58
France - 0.92
Belgium - 0.75
W. Germany - 0.74
USA - 0.66
Netherlands - 0.59
UK - 0.55

(Source, NEDO, 1975, p. 32.) Short-term plus long-term loans over shareholders' interest.

Moreover, capital gearing for industrial and commercial companies has fallen in recent years as inflation affected the nominal valuation of capital employed. By 1979 net debt as a percentage of trading assets had fallen to something like half the level of 1970 (Bank of England Quarterly Bulletin, June 1980, pp. 193-4).

Gearing is significant in two respects. On the one hand greater reliance on debt finance can cheapen the cost of capital through tax benefits and the effects of inflation on fixed interest loans. On

the other hand gearing has a disproportionate effect on shareholders' returns. Greater reliance on fixed interest debt augments the return to shareholders if profits are high but has the opposite effect if profits decline since the interest on loans constitutes a fixed charge deducted from company income. Similarly, inflation raises the uncertainty with regard to fixed interest borrowing, since loans contracted at high nominal rates become increasingly burdensome if inflation decreases. Higher gearing thus represents a riskier but cheaper and possibly more lucrative mode of investment finance.

Japanese industry is able to maintain a significantly higher average gearing ratio because the banks are supported by the central authorities when their lending policies lead to short-term liquidity problems (Thompson, 1977, p. 268). High gearing offers certain advantages to the corporate sector since it allows a higher rate of capital formation than can be financed solely out of retained earnings, but at the same time it requires that "Government must be recognised to commit itself to supporting the industrial sector even in tight money or deflationary fiscal periods" (NEDO, 1975, p. 33).

In this sense then the practices of the financial sector along with those of the Bank of England have created a downward snowball effect, as companies' investment programmes have been constrained by their past profit records and their capacity to raise new equity finance. Loan finance as well as other forms reinforces the short-term orientation of firms and precludes the closer association and financial monitoring that banks would have to undertake if greater reliance was placed on term lending (Samuels et al, ch. 13). At the same time one should note that the rather cautious approach of the financial system in Britain is not unrealistic given the recent performance of the industrial sector and the overall trend of profitability. In this sense the higher gearing ratios of other countries may simply reflect the extension

of credit in conditions of relative economic boom, i.e. the macro-economic environment and government policies. The financial and industrial sectors in Britain have simply adopted practices on the basis of fairly accurate expectations about the rate of growth and trends and variations in profitability and liquidity characteristic of the national economy. At the same time as part of the general low-growth syndrome the "rentier practices" of banking capital do seem to have penetrated and dominated the approach of industrial capital towards investment finance in Britain (Thompson, pp. 270-71). In that sense they have presented an obstacle to industrial revitalisation which became a topic of political controversy in the 1970s.

The NEDO report, Finance for Investment, is instructive in this respect. A survey of attitudes of industrial and commercial companies concluded that "few companies seemed to feel dependent on the City financing mechanisms and related institutions" and that "most of the smaller companies ... preferred to limit their growth investment to the availability of internal funds" even when the option of stock issues was a possibility (NEDO, p. 75). However, the report qualified this in two respects: first, "companies in 'recovery' situations, which needed risk capital for fundamental rationalisation and subsequent expansion, had difficulty in obtaining finance (and have had very much more difficulty since 1972)", and second, "conservative financing attitudes, sometimes connected with a desire to avoid dilution of ownership or managerial control, must have inhibited the development of more positive growth strategies" (ibid., p. 76). Thus the evidence does not support the picture painted by some left-wing critics of British industry begging the City for capital, but rather one of industrialists pursuing conservative investment programmes congruent with the prudent practices of the financial sector. The political problem posed by the relations between industry and finance

in the 1970s was sharpened by the fact that internally generated funds were increasingly inadequate for maintaining existing investment levels, let alone financing a programme of industrial regeneration.

To cite the NEDO report once again,

if investment in the UK were to be increased to levels corresponding to those in other countries, either profits would need to increase substantially or greater reliance would need to be placed on external sources of finance. Almost certainly greater reliance would have to be placed on external finance until cash flows were built up (NEDO, p. 20).

This statement succinctly describes the poles of the political debate on capital function in the 1970s. From the point of view of British industry the attempt to revive investment through greater profitability and productivity (not to mention wage restraint) placed it in a position of potential (and actual) conflict with organised labour. On the other hand the alternative or complementary course of developing new means for funnelling savings into industrial investment was bound to cause an open break with financial institutions, although it commanded widespread support among the unions and the Labour Party. This division underlies much of the conflict on domestic economic policies over the next decade.

CHAPTER NINE

The Post-War Settlement Unravels, 1970-74

The surprise victory of the Conservatives in June 1970, augured a sharp break with the ad hoc interventionism in industrial incomes and labour policy or alternatively the emerging system of voluntaristic corporatism which characterised governments of both parties in the 1960s. For in opposition the Tories had shifted ideologically back towards the neo-liberal position of the 1950s. At this point, however, the renewed rhetoric of reviving market forces, restricting the role of the state and coming to grips with union power had a much harder edge than before, reflecting the growing realisation on at least one side of the class divide that the consensus politics of two decades were failing to deliver the goods. While in at least one important respect, namely the reform of industrial relations, the Conservatives did appear to be following through with a corporatist impulse, namely the initiative put forward in In Place of Strife, for the rest the "Selston" approach did appear initially as a radical departure. Even in industrial relations the willingness to press ahead with legal reform despite the total hostility of the unions bespoke a new stridency in the neo-liberal programme, which was pursued even at the cost of regenerating a degree of open class conflict unseen since the 1930s.

By the end of course the Heath government had changed directions in virtually every aspect of its initial approach, so completely thrown off its track that it more or less collapsed in the winter of 1974 amidst the second miners' strike in two years, the three-day week, the almost unbelievable politicisation of industrial conflict and the worst

economic crisis since 1931. The virtual abandonment of the Industrial Relations Act was only one of several u-turns, as measures in every area of economic policy came up against the structural resistance of the British political economy. At the same time certain aspects of the free market approach in the fields of monetary and exchange policy, especially the floating of the pound from June 1972, and the introduction of Competition and Credit Control, survived the government's reversals on other issues (CCC admittedly only with important modifications). The floating of the pound seems particularly important given the previous analysis of the politics of devaluation in the 1960s. For the Conservatives were hardly the party to act against the City. Indeed, as the caricature of "Selsdon men" indicated, they seemed permeated by a harsh new breed of financiers. Yet devaluation or floating exchanges were measures never before enacted by a Tory government. As pointed out above, changed attitudes towards sterling reflected the altered context of national and international finance, and in that sense hardly conflicted with City interests, perceived or imputed, a point which I shall discuss more fully below. First, however, I shall look at the one area where it may be said that the planning initiative of the 1960s survived in some form.

Administrative Planning and the Control of Public Expenditure

The Heath government may have favoured unleashing market forces on the British economy, but planning still remained at least the rationale for its approach to controlling the state machinery. Regarding administrative organisation and procedure it took its cue from corporate management and planning. That is, its embrace of the opposing principles of market and plan was not quite so contradictory as might seem at first glance, since it effectively mirrored the practice of advanced capitalist firms, which plan production internally in so far as possible despite the external constraints of market forces. While it is not my intention to investigate administrative "rationalisation" in any detail, I will briefly review developments in this field as 1. it was the only area in which the planning initiative survived, and 2. the issues surrounding public expenditure control became increasingly important matters of economic policy in the 1980s.

For the Tories the managerialist ethos and technocratic impulse of the early 1960s was perpetuated through the period of opposition largely through the work of the Conservative Party Public Sector Research Unit (PSRU) under Lord Marples. Between 1967 and 1970 this group conferred with various business interests on plans for the reorganisation of the state machinery which focused on several themes:

1. The need for a close, more output-oriented definition of the function of central government, and a consequent re-patterning of departments according to this 'functional principle'.
2. The advantage of a 'central capability' to assist in strategy formulation, and raise eyes beyond the inevitable pressures of short-term business.
3. The need for a system of formal programme analysis, possibly run by the 'central capability'.
4. The shedding, or 'hiving off' to a distance, of non-policy executive tasks said to be encumbering ministerial departments. (Pollitt, 1980, p. 86.)

Two other groups also fed into the Tories' rethinking of administrative

rationalisation in this period. The Party Advisory Committee on Policy under Heath and Edward Boyle decided to continue the process of amalgamating government departments began under Labour. The "Businessmen's Team", composed of various corporate executives, who remained on secondment from their respective firms throughout the life of the government, devoted its efforts to a series of special projects, some of which covered the same issues as the other groups (*ibid.*, pp. 85-7).

These concerns were reflected in the government white paper, The Reorganisation of Central Government, published in October 1970. This avowed the aims of efficiency and effectiveness and reiterated the "functional principle" of administrative organisation first announced in the Plowden Report in order to achieve "economies of scale", avoid "the diffusion of expert knowledge and the difficulty of co-ordination", save duplication and clarify "lines of demarcation between responsibilities" of different departments (p. 4). Such rationalisation was likewise supposed to aid in the formation of strategic policy and provide organisational stability as a background to the introduction of new techniques of policy evaluation and the refinement of older ones. The white paper proposed essentially three means of institutionalising or strengthening such a functional or technocratic mode of procedure, 1. the further centralisation of administrative functions through the amalgamation of departments, 2. the creation of a "central capability" oriented towards strategic objectives through the Central Policy Review Staff (CPRS), and 3. reinforcement of the Public Expenditure Survey Committee (PESC) by way of the introduction of Programme Analysis and Review (PAR).

As regards the first point the government created in particular two giant departments. The Department of Trade and Industry (DTI)

took over most of the responsibilities of Mintech and the Board of Trade as well as that for monopolies, mergers, and the restraint of trade, from the Department of Employment and Productivity (DEP). The aerospace function of Mintech was, however, hived off into a temporarily demarcated Ministry of Aviation Supply. The Department of the Environment (DoE) absorbed the old ministries of Housing and Local Government, Public Buildings and Works and Transport. Having lost its responsibilities of dealing with prices, productivity and incomes the DEP became simply the Department of Employment. While this reorganisation looked rather thorough at the time, it should be pointed out that this process was really a continuation of that started under Labour and that in any case "The initiative here came as much from the Civil Service as from the ministers" (Pollit, 1980, p. 88). In particular one proposal of the PSRU for splitting the Treasury with a separate ministry in charge of the Public Expenditure Survey and Civil Service Division was effectively blocked at least in part owing to Whitehall opposition (*ibid.*). Whatever the logic of this aspect of administrative rationalisation the changes in organisational structure were too short-lived to have any significant impact on the mode of procedure of government policy formation. For, whether for administrative or political reasons, Labour promptly dismantled the DTI and at least partly dismembered the DoE.

Lord Rothchild's "think tank", the CPRS, fared little better as an attempt to insert strategic, cross-departmental considerations into government policy making. Composed of roughly half career civil servants and half from business, academic and international organisations, this aspect of Heath's "managerial revolution" was from the start a compromised version of the PSRU's notion of a central "analytic capability" serving the Prime Minister. Treasury fears of an organisation largely duplicating its prescribed role and Cabinet opposition

to the idea of a "presidential" department serving the Prime Minister precluded any ambitious departure, and no doubt contributed to the insecurity of the position of the CPRS in the traditional Whitehall-Cabinet nexus (Heclo and Wildavsky, ch. 7). Its tasks largely concentrated in three areas, 1. special reports on a variety of politically controversial issues, 2. twice yearly briefings at Chequers on the general progress of the government's programmes, and 3. analysis of the compatibility of the various papers put forward by ministers to the Cabinet. Given the confidential nature of much of this work it is very difficult to evaluate its detailed effects on government procedure (Pollitt, 1974 and 1980). However, there is certainly considerable evidence for taking a fairly negative view at least as regards the capacity of the CPRS to either offer alternatives to Civil Service policies or introduce a more strategic outlook. With respect to the former the CPRS was both very small, dependent on information supplied by Whitehall departments, and unlikely to differ radically from Treasury orthodoxy in any case given its composition and general ethos (*ibid.*). On the latter point, as I will argue below, virtually all major decisions in the central areas of policy, can be adequately characterised as immediate responses to short-term contingencies. The infamous u-turns taken by Heath in 1972-3 hardly testify to the predominance of a long-term programme. Moreover, as the government received successive batterings in these years, Heath apparently increasingly distrusted the advice of Lord Rothschild and withdrew into a "bunker" of alternative advisors, primarily Sir William Armstrong (head of the Civil Service), Douglas Allen (head of the Treasury), Robert Armstrong (principal private secretary to the PM) and Burke Trend (Cabinet Secretary) (Fay and Young, 1976).

The one area in which a more output-oriented, technocratic mode of procedure was at least systematically attempted, namely the

control and planning of public expenditure, offers additional negative evidence. PESC, an interdepartmental committee chaired by an under-secretary from the Public Sector group of the Treasury, was itself a product of the Plowden proposals of the early 1960s. The first five year projection of public expenditure appeared in 1963, and these became regularised on an annual basis after 1968. The Conservatives' sole innovation in this aspect of administrative planning was to introduce a form of programme budgeting and systems analysis through PAR. This essentially represented "a way of applying the principles of corporate planning to running the State" (Leruez, p. 237). The business team had been particularly influential in drawing up this set of proposals, but their notion of a general exercise under the control of the CPRS was quickly scotched (Heclo and Wildavsky, ch. 6). Indeed, since the Treasury in any case retained charge of the whole operation, seeing it as an extension of its traditional mode of control, it is difficult to see how PAR constituted much of a break with past practices. In any case the secrecy of the PAR reports precludes more explicit discussion. All that one can claim is that their coverage remained selective and their integration with the PESC system limited (Pollitt, 1980).

More significantly PESC itself began to come undone by the end of the Tory term of office. The reason for this was simply that it appeared that public expenditure was shooting rapidly out of control and that PESC almost certainly bore part of the blame. The deficiencies in the Public Expenditure Surveys, which forecast future spending in volume terms, became increasingly apparent as inflation and particularly the so-called relative price effect of public sector costs rising faster than those of the private sector affected the actual outturn. The latter featured particularly strongly in the discrepancy between the 1974-75 outturn and that projected in

1971 for the same year which became a political hot potato under Labour as the issue of "the missing billions" (Wright, p. 148). Similarly, looking back somewhat further to the use of PESC under Labour, the fact that projections for public expenditure were made in reference to the "unrealistic" forecasts of economic growth made in the National Plan almost certainly contributed to the rapid rise of the former as a percentage of GDP in the middle years of that decade (ibid., p. 154, and Sandford, 1979, pp. 4-6). Thus, at least in some respects the refinement of public expenditure planning techniques associated with the purposive/rational mode of procedure actually contributed to the "breakdown of control" which erupted in the mid-1970s. At the same time, however, one must inject at least one note of scepticism on the extent to which planned public expenditure was spiralling out of control in these years. For by far the greater part of the actual growth of state spending was accounted for in the provision of transfer payments, and these in turn were largely explained by demographic factors, the growth in regional aid and the increase in interest charges on the national debt during inflationary periods (Wright, p. 146).

At the same time PESC made little headway in the other of its chief aims, stabilising the variations in public expenditure, particularly on the capital account. Labour's recourse to public expenditure cuts as a response to immediate economic and political pressures, e.g. runs on sterling, as already described. The view of the new government as expressed by the Chancellor on October 1970, was that the trend of public expenditure towards accounting for 50% of GDP was "unacceptable" and that consequently public services "must be subject to firm control to secure economy and efficiency" (Hansard, 1970-1, vol. 805, col. 37). However, by the summer of 1971 under the pressure of rising unemployment the government had reverted

to using "the level of public spending and the programmes to which it is applied to meet urgent and immediate needs as an instrument of policy" (Maurice Macmillan, cited in Blackaby, p. 118). The use of public expenditure as a short-term expedient for reflation between June 1971 and May 1972, was followed by the use of cuts as a means of deflation in late 1973, in particular the savage cuts in capital programmes in December as the government's crisis deepened. Neither the Tories under Heath nor Labour before or after were able to refrain from short-term and often substantial variations in public spending as an instrument of policy. As a result some four of the £5.8 billion increase in outturn over forecast expenditure for 1974-5 was due to policy changes of both governments (Wright, p. 149). PESC may have had problems of its own, but the main problem was simply the inability of governments to maintain any stable programme over the medium term. Politics retained its primacy over policy despite the intentions of the corporate planners and Civil Service technocrats.

Economic Policy and the Crisis

Given the ideological commitment of the Conservatives to state withdrawal from economic and industrial intervention and greater reliance on market forces, as articulated at the Selsdon Park conference in January 1970, planning was a dead letter. The problem for the Heath government was how to articulate the rediscovered market philosophy in a framework where state policies inevitably strongly affected the performance of the economy, particularly in a period of emerging crisis. In the event the Tories simply reaffirmed short-term demand management with a new vengeance even more destabilising than in the past. Caught between the same but more intense cross winds that had bedevilled previous governments, they succumbed to the buffeting and shifted their policies erratically in a vain attempt to cope with rising inflation and unemployment, speculation against sterling and eventually a massive liquidity crisis. The much heralded withdrawal from state intervention and end to consensus politics proved short-lived, as within two years the Heath government reverted to more or less the same ad hoc mix of economic and industrial programmes that had characterised Wilson's last years.

The budgetary policies of the Tories typified this circuitous route. The new government had inherited a substantial surplus on the balance of payments current account, but incomes policies and deflation over the previous three years had also bequeathed a slow growth rate, excess capacity, rising unemployment, and an explosion of money wage rates and strike activity. The budgets of October 1970, and March 1971, were cautious in design and more or less neutral in terms of their effects on demand, although the second allowed for a slight rise of the growth rate of GDP up to 3% for 1971. The more controversial aspects of the initial budgetary stance concerned distri-

butional effects and industrial policy, as the Conservatives replaced investment grants with tax allowances, phased out the regional employment premium and eliminated various social subsidies like museums, school meals and free milk, dental treatment, etc. If at the beginning the emphasis of economic policy had been towards controlling inflation, by the early spring of 1972 it had shifted towards combatting unemployment. The latter had risen particularly fast over the course of 1971, approaching the one million mark (an important "psychological barrier" at that time) by early 1972. While the Chancellor, Anthony Barber, had taken some steps to stimulate consumption in July 1971, various monetary measures discussed below and a rapid rise in public expenditure added more fuel to the reflationary fires by the turn of the year. The final step was the massive tax-cutting budget of March 1972, intended to stimulate the growth rate to a 5% level and bring unemployment down to 500,000 by the end of 1973. Even this unprecedented injection was not enough to push the growth rate over 3 1/4%, and the price of the consumption-led "Barber boom" was a rapid rise in both inflation and imports, as stop-go policies reaped the usual harvest. By the time of the March 1973 budget the external current account had moved back into deficit but the Chancellor stuck to a neutral course followed by slight restriction hoping to reach the projected growth rate. This was followed by minor restrictions in May as the Chancellor announced cuts in projected public expenditure over the next two years of some £600 million. As a result by the end of the year the current balance had deteriorated to its (then) worst ever deficit, although the latter was at least in part due to the exceptional rise in import prices owing to the burst in the world growth rate. However, inflation had crept up to 10% by October, even before the oil price rises following the Yom Kippur War (Stewart, 1977, pp. 119-173, and Blackaby, chs. 2 and 3).

Monetary policy likewise fed into the inflationary spiral of

the Heath years. One result of the growth of secondary banking, described in the previous chapter, was that the Bank of England gradually found itself loosing control over the money markets and hence its leverage on monetary policy. Partly to re-establish that control and partly to put all banks on an equal competitive footing, it introduced the new policy of Competition and Credit Control (CCC) in 1971 (Bank of England Quarterly Bulletin, June 1971). While the new system resembled the old in that it was based partly on a specified ratio of liquid deposits and partly on special deposits placed with the Bank of England, it differed in several respects. Under the previous system competition among the clearing banks had been limited by the requirement that they hold 8% of their deposits in cash and non-interest bearing accounts at the Bank and a further 20% in liquid assets which together counted as the liquidity ratio, i.e. 28%. Following the introduction of CCC the new "reserve" ratio specified that only 12.5% of total deposits had to be held in approved assets and the definition of the latter was widened to include short-term gilts. The reserve ratios applied not only to the clearers but all banks. Lending ceilings and the interest-rate cartel of the clearing banks were discontinued, and therefore there was no longer an automatic link between their lending rates and the minimum lending rate (previously called Bank Rate) (Blackaby, pp. 238-48). As much as the new system was simply a response to changes in the financial system, they also dovetailed with the neo-liberal ideology of the Conservatives, as the clearing banks were henceforth free to compete more actively for deposits among themselves and with other banks.

CCC, however, perpetuated and in someways accentuated some of the defects of the old system, particularly as regards control of bank lending and the money supply. For one the reserve ratio was lower, equivalent to 15-20% of deposits in the terms of the previous

liquidity ratio, which allowed the banks greater latitude in expanding their lending (Stewart, 1977, pp. 139-40). Secondly, as the clearing banks now directly entered the secondary markets, trading in the inter-bank and Certificates of Deposit (CDs) markets grew rapidly. Without lending ceilings the banks needed only to include net borrowings in these markets as their eligible liabilities in the reserve ratios. As a significant proportion of those reserve assets were in fact loans to the discount market secured against CDs issued by the banks themselves, the reserve ratio offered even less of a limit on the expansion of lending in the secondary markets than implied by the gross percentage of liquid assets to deposits. Moreover, the expansive growth in the use of CDs as security in the discount market together with the lack of knowledge of the ultimate source of funds meant that this "financial chain letter" posed a severe security and liquidity risk in the event of any future monetary squeeze (Channon, 1977, pp. 14-15, and 91-3). Thirdly, budgetary policy still impinged on the ability of the Bank of England to exert monetary control. If the Bank needs to raise finance by issuing Treasury bills this would add to the reserve ratios creating the basis for further lending. In practice the combination of a large government deficit to bring down unemployment, rapidly rising inflation and political pressure to keep down interest rates prevented the authorities from restraining the vast expansion of credit in the early 1970s (McRae and Cairncross, 1974, pp. 209-11).

As a result the money supply expanded in the wake of the new regulations, although the two standard measures diverged rather sharply from mid-1972, M_1 , increasing at an annual rate of 14.4% and M_3 at 28.1% (Blackaby, p. 250). In the first nine months after the introduction of CCC bank advances increased 40%, and by mid-1973 they had doubled. Activity in the secondary markets was particularly

intense despite slightly higher interest rates, as over the same period borrowing on the sterling inter-bank market rose nearly 300%. Since such a rapid growth in the money supply (particularly apparent in the wholesale markets) could not be translated into industrial growth, it financed the boom in consumer goods and property instead. From 1971 to 1973 bank lending to the property sector rose four times, so that by the end of 1973, if one includes loans for construction, it exceeded the lending of the clearing banks to the whole of the manufacturing sector. The fringe banks prospered particularly in the property development boom often taking equity stakes and thus increasing their assets as well as their profits from the rapid rise in property values. The expansion of credit following CCC and the rather slack attitude of the monetary authorities towards constraining that growth thus fuelled a major speculative boom which needed only a small shove to bring it crashing down (Channon, 1977, pp. 93-5, Stewart, 1977, pp. 139-40, and Gowland, chs. 4 and 5).

The reaction of the Bank of England to the money and property boom was as sluggish as that of the government to the rapid rise in output and imports. From August 1972, the Bank reverted to "qualitative" lending priorities, requesting that banks limit their operations on the property and stock markets. This, however, did little or nothing to control the boom. Moreover, the substitution of minimum lending rate for Bank Rate two months later cut the other way since the new instrument was supposed to be "automatically" determined on a weekly basis at 1/2 per cent above the average rate for Treasury bills. In other words, the bank in accordance with the neo-liberal approach announced that it would henceforth be following rather than attempting to lead market rates for government stock, although it returned to the previous practice a year later. The Bank only began actively to restrain monetary growth in July 1973, once again in response to the

deterioration of the sterling exchange rate and the disparity in short-term rates between London and financial centres abroad. In the usual panic MLR rose from 7 1/2 to 11 1/2% within a week, an unprecedented jump, as the Bank called in further Special Deposits (Bank of England Quarterly Bulletin, 1973, p. 476). Over the next few months restrictions were tightened. The earlier request on lending priorities was repeated, an official ceiling on bank deposits under £10,000 was reimposed, hire purchase controls were renewed and a Supplementary Deposits scheme introduced. By November the Bank had reverted to its earlier policy of announcing a change in the official rate when it raised MLR to 13% in response to another run on sterling occasioned by the trade deficit, oil crisis and inflation (Blackaby, 1978, pp. 245-57).

In the meantime the government had initiated at least a minor revolution in exchange rate policy as in June 1972 sterling was floated. Initially conceived as a temporary measure to thwart speculation and justified as necessary to preserve the expansion of domestic demand, external pressures actually featured most strongly in the decision. As mentioned above the growth of financial business denominated in foreign currencies and the simultaneous initiative to join the EEC had already precipitated a re-evaluation in financial circles towards exchange rate policy. More significantly the Bretton Woods system had been effectively jettisoned the previous December and Britain was already participating in a joint float with EEC currencies from May. The new regime of quasi-floating rates had already suffered some disturbance, and at this point it was simply sterling's turn in the line of speculative fire. A combination of a sharp drop in the balance of payments situation and the threat of a massive industrial dispute over the Industrial Relations Act and the imprisonment of several dockers, set off a flight of short-term capital. Once again devaluation (or in this case floating) was less the result

of a conscious policy decision, than the forced consequence of internal and primarily external pressures (Stewart, 1977, pp. 150-53). More ominously for the future the combined effect of CCC and the floating exchange rates was actually to increase the power of the financial markets to dictate government economic policy. As the new monetary creed swept through financial circles in the next few years, the incoming Labour government found itself even more constrained than in the past (Keegan and Pennant-Rae, pp. 134-5).

The squeeze of the second half of 1973 first took effect in the housing and wholesale markets as building society advances dried up and wholesale rates soared. By December a massive liquidity crisis hit the overextended secondary banks, as the fall in property values and rise in interest rates exposed their insecure position. London and County Securities shut down first, followed by the collapse of Moorgate Mercantile and Cornhill Consolidated and runs on virtually every other secondary bank. On 21 December the Bank of England launched the "Lifeboat" operation together with the London and Scottish clearing banks and by January an estimated £700 million had been "recycled" in support of the fringe banks. The financial panic abated somewhat by the end of January, but in the meantime share prices had crashed with the property sector particularly hard hit with the liquidity crisis and collapse of confidence spreading from the financial to the industrial sector (Channon, 1977, pp. 96-100). In as much as the financial crisis was an international phenomenon, illustrated by the crash of the San Diego Bank, the Sindona empire, Franklin National, and I.D. Herstatt, it can hardly be blamed entirely on the monetary policies of the Bank of England. There is little doubt, however, that the latter contributed to the credit bubble in the United Kingdom and this constituted part of the reason for the particular severity of the crisis in this country (*ibid.*, pp. 119-21). To understand how the

liquidity and security problems of the fringe sector of British banking triggered off an economic and political crisis affecting the entire British economy, we must first look at another aspect of Tory policy, namely that concerning union reform and prices and income policy.

Industrial Relations Reform and Incomes Policy

Neo-liberal ideology likewise guided the financing of the Conservative programme for industrial relations reform. However, the Industrial Relations Act of 1971 paradoxically represented more of a shift towards state corporatism as a substitute for statutory incomes policy than anything else (Crouch, 1977, pp. 166-79 and 233-40). While justified in terms of the usual obeisance to market forces and withdrawal of the state from active intervention in industrial disputes, both the concrete measures proposed and the effect of attempting to implement them pushed well beyond the framework of voluntaristic corporatism that had emerged in the 1960s. Through such provisions as the registration of unions, restrictions on strike activity and the responsibility of union officials for respecting these restrictions (especially in the case of legally binding agreements), and a new legal offense of unfair industrial practices, the Act in effect proposed to both reduce the autonomy of the unions and convert them at least partially to agencies licensed by the state. It likewise extended the sphere of state intervention in industrial relations through those pressures and the establishment of the National Industrial Relations Court and the Code of Industrial Relations Practice, the retention of the Commission on Industrial Relations on a statutory basis and the introduction of clauses allowing for compulsory ballots and cooling-off periods. Although voluntary aspects were retained in respect to legally binding agreements and registration, and the extension of the government's role was limited through hiving off much of the responsibility for enforcement on to quasi-state agencies, there is no doubt that the Act involved both greater coercion and a shift towards statutory corporatism (*ibid.*, and Thompson and Engleman). Had it survived one would certainly foresee an attempt to consolidate that trend through further sanctions against unregistered unions

and/or an extension of the range of legally binding agreements.

In the event the bill did not outlive the Heath government, and even the latter more or less abandoned the attempt to enforce it by the end of 1972. In the short period of its operation, however, the Industrial Relations Act managed, along with Tory policy on wage control, to completely erode another pillar of the post-war settlement, the institutional separation of industrial and political issues.

Initially, Tory policy on wages followed the same over-all market approach, as they wound up the NBPI and left it to employers to resist as best they could the wage explosion of the early 1970s. By July 1971, they had reverted towards, partially at least, an informal agreement on prices, following up an initiative by the CBI to hold price increases below 5% for the coming year, a move which received widespread support among the largest firms. The problem with this line appeared first in the public sector, where the government as employer could hardly avoid taking as tough a stance as it had agreed with industrialists. Its initial stance was to both indirectly discipline the nationalised industries by refusing to allow price increases in line with high wage settlements and directly resist public sector wage claims above an informal norm. This proved relatively successful over the first winter, although the cost was several drawnout disputes with the dustmen, electricity supply workers and postal workers. However, the growth of public sector wages continued unabated, and the imposition of price restraint on the public sector resulted in the nationalised industries accumulating accelerating deficits (Blackaby, pp. 60 and 511). By the next winter the Tory plan of hitting the public sector had stalled on the first national miners' strike since 1926. The strike began in January 1972, and lasted until 25 February, resulting in power cuts, a state of emergency, and a three-day week

for much of British industry. It also introduced a new term into British industrial relations, the "flying picket", as the miners took their dispute from the pit-head to coal depots, ports and power stations in a display of militancy not seen in the post-war period. Ostensibly an industrial dispute, the miners' strike was certainly perceived at the time as directed against the government. The "hands off" policy had in fact encouraged the rampant politicisation of wage issues, owing to the disparity of treatment accorded the private and public sectors. This process was further enhanced by the passage of the Industrial Relations Act, as the militant faction within the TUC pushed through a policy of non-co-operation and overt political strikes. Two official one-day stoppages and demonstrations drew out 1 1/2 million workers in March 1971.

By mid-winter, 1972, the Tory inflation strategy was in tatters. Rising unemployment had failed to have any significant impact on wage bargaining, as the relationship postulated by the Phillips curve so dear to the Treasury no longer appeared to be valid. Even the Bank of England had abandoned its traditional approach to controlling inflation. As pointed out by the Deputy Governor of the Bank of England in a speech on 25 April 1972:

We have the unwelcome and unusual sight of rising unemployment and declining capital utilisation coupled with rising prices - circumstances which call into question the possibility of controlling inflation through measures of orthodox demand management. (Bank of England Quarterly Bulletin, 1972, p. 228.)

The growth of unemployment by this point seemed so serious that, as mentioned above, the government massively reflated the economy in the next budget. The policy of steadily reducing settlements in the public sector had likewise foundered on the miners' strike, leaving both instruments of wage control effectively useless.

In the event the Heath government had little choice, and began

to return to the alternative programme of negotiating some form of incomes policy with the unions. Initial discussions with the TUC in March got nowhere, as by then the Industrial Relations Act was reaping a harvest of growing industrial chaos. The attempt to use strike ballots and a cooling-off period in the railway dispute in April proved futile, as the railwaymen voted massively in favour of the action and won a substantial pay increase. At the same time union policy of refusing to recognise the authority of the NIRC resulted in huge fines for the TGWU and the AUEW, further poisoning the industrial atmosphere. Legal wrangling over who was responsible in cases of "unfair industrial practices", the union which could only be fined or the individual strikers who could be imprisoned, now produced the Act's biggest and most embarrassing headache. Successive reversals in the courts over this particular aspect led first to the near imprisonment of three dockers on 16 June and a massive walkout that threatened to spread to other industries. In this case the government was relieved by the actions of the now famous Official Solicitor, who appeared out of nowhere and successfully applied to the Appeal Court to rescind that particular judgement by the NIRC. However, in a separate local dispute another NIRC injunction actually did end up with the imprisonment of five more dockers a few weeks later, precipitating a national port closure, widespread sympathetic strikes and a call by the TUC for a one-day general strike on 26 July. Fortunately for the Tories the House of Lords ruled on the same day regarding a previous case that the union was responsible for the unofficial actions of its members. The dockers were released, the TGWU fined once again and the industrial bombshell defused at least for the moment.

As noted above the industrial conflicts at this time reacted with the underlying decline in the balance of payments position and

the almost continuous international monetary crisis to produce a run on sterling and the subsequent decision to float the pound. Having lost this additional constraint on domestic inflation the Heath government now began to court the unions in an earnest if vain attempt to secure agreement on wage restraint. It dusted the mothballs off the NEDC, as the latter constituted the only "neutral" forum where discussions could take place. Negotiations at the NEDC, Chequers and Downing Street dragged on into the autumn. While this intensive soliciting of union opinion by a Tory (or even Labour) government was unheard of previously, and while Heath made substantial concessions to the views of the TUC, the talks foundered on the demand of the latter for a wholesale change in government policy, including repeal of the Industrial Relations Act. Consequently, when it finally became clear that voluntary agreement on wage restraint was out of the question on 6 November, Heath resorted to the only deflationary option left despite the Tory manifesto commitments, i.e. a statutory incomes policy.

Under Stage I of the incomes policy the government imposed a three-month freeze on all wages and most prices, although fresh foods were excluded, and some manufacturers of food products were allowed to increase prices in line with the growth of input costs. In consequence average earnings rose by less than one per cent over the period, while the retail price index went up by some 2.4%, most of this due to the rising cost of food (Blackaby, p. 379). Stage II, which followed directly on from the freeze, allowed for average pay increases of 4% over 12 months plus £1 per week. Having abolished the NBPI, the Conservatives now had to revive it, although this time it was split into two agencies, the Pay Board and the Price Commission. These two bodies also had somewhat different terms of reference from their equivalent under the previous government. Price increases had to refer either to increases in "allowable costs per unit" and/or a maximum

limit on net profit margins. Wage coverage was universal rather than requiring the government to refer cases individually, was based on average earnings rather than national pay agreements, made no allowance for productivity settlements and leaned more on large firms. As Crouch has argued the thrust of the policy was primarily towards "fairness" in the sense of preserving the existing structure of pay relativities and "consensus" in securing an agreed framework for wage growth (Crouch, 1977, ch. 7). However futile the ultimate aims of the programme, it did succeed in at least a limited sense. The unions acquiesced for at least a time to the very active attempts to include them in the statutory structure. It almost certainly as well had some effect on overall wage rates, although unions and employers managed to exploit the exclusion clauses regarding payment by results, equal pay, overtime and postponed settlements. By October 1973 average hourly earnings had risen 13 1/2% over the previous year (roughly the same as the previous two years). However, food prices in the last quarter of 1973 were up 20% on the year before fueling union resentment, and real post-tax wages had actually fallen for the first time since 1968-69 (CEPG, no. 2, ch. 3; Blackaby, pp. 378-401, and Stewart, pp. 178-85).

It was Stage III, from November 1973, however that really ran into trouble. The revised price code made few changes with no attempt to bring food within its ambit. On the wages side the attempt to institute a more flexible policy created the basis for potential breaches of the general norm of 7% or £2.25 per week. At TUC insistence after prolonged negotiations the government introduced various escape clauses for reasons of efficiency, relativities and equal pay. More significantly, the new package included threshold payments if inflation rose beyond a projected percentage and special rates for "unsocial hours" in an attempt to ward off an imminent battle

with the miners. Given that the terms of trade and balance of payments had already shown a marked deterioration because of the international commodity boom and the rapid expansion of domestic consumption, the October Treasury forecast of 7% inflation beyond which threshold payments would commence was wildly inaccurate. When coupled with the trebling of oil prices that followed on the heels of that projection, Stage III laid the basis for another wage-price explosion (*ibid.*).

In any case the new policy was rapidly overtaken by the oil crisis and the dispute with the miners. A secret meeting in July between Heath, Joe Gormley, the miners' leader, and Sir William Armstrong, head of the Civil Service and Heath's closest advisor, had evidently led to an understanding that such measures would be enough to buy off the miners as a special case. The open publication of those escape clauses in the discussion Green Paper in October, especially for "unsocial hours", seemed to preclude such a deal, since they were now available to any union. More importantly two years of militancy and the hardening of the government's attitude left a highly delicate situation in which misunderstandings were likely and neither side particularly open to an easy compromise. From 1 November the electrical power workers were in dispute, and on 12 November the miners called an overtime ban. Heath responded the next day with a state of emergency banning Christmas lighting, followed up in December with a 50 mile speed limit and the announcement of the three-day week starting on New Year's Day. Subsequent attempts at mediation resulted only in further polarisation. Another secret meeting in mid-December between Gormley and William Whitelaw, the new Secretary of State for Employment, produced only another misunderstanding and hardened opinions. By 16 January even an offer by the TUC at an NEDC meeting not to use a special settlement as an excuse to exploit the pay code was publically brushed aside by the Chancellor (Fay and Young,

1976). The Mining executive balloted the membership with a massive result reported on 4 February in favour of a strike from the 10th. Three days later Heath announced a general election for 28 February.

Thus, by the end of its brief term of office the Conservative government had come full circle regarding industrial relations and incomes policy. The neo-liberal incomes approach grafted onto an éstatist corporatist programme of union reform failed quickly and completely. In the process the post-war settlement on industrial relations, already badly shredded under Labour, simply fell apart. Not only had the Tories precipitated overt political strikes for the first time in the century (if one excludes the General Strike), but even straightforward industrial disputes now took on an unavoidable political dimension. Whatever the views of the majority of participants, the miners' disputes of 1972 and 1974 were seen at the time as strikes against the government. Given the attempt to hold on to some form of wage restraint in both years, whether official or unofficial, they could hardly achieve their industrial objectives without assuming a political aim. Another pillar of the post-war system, the institutional separation of industrial and political issues, had crumbled.

Industrial Policy

The hands off policy regarding state relations with industry fared no better. In this arena as well the Conservatives had announced their intention to back off from detailed intervention of even the ad hoc variety practised under Labour. They promised at the outset to hive off some parts of nationalised industries, wind up the IRC, revert from development grants to tax allowances, refrain from supporting troubled companies and reinforce anti-restrictive policies. In the first year of office they successfully pursued the new line, but by the end only the policy on competition remained intact. The Fair Trading Act of 1973 buttressed the Monopolies Commission and established a new quango, the Office of Fair Trading under a Director General more or less independent of the government. However, the Director General still lacked the power to initiate a merger investigation, and the first appointment to the post only occurred a few months before the government expired, leaving little chance to assess the new policy in practice (Blackaby, pp. 428-31).

The "no lame ducks" policy was the first to run aground in infamous circumstances. Ironically, perhaps, the two industries which marked the first of many Tory u-turns had both been reorganised and received substantial state aid under Labour in the pro-merger period, which may have contributed to undermining their commercial position. Three firms in particular ran into serious financial trouble in 1970, Upper Clyde Shipbuilders, Cammell Laird and Harland and Wolff. UCS in particular had emerged as a direct result of an amalgamation sponsored by the Shipbuilding Industry Board in 1967 and 1968. The latter had already injected some £21 million in that firm in grants, loans and share purchases while the IRC had made loans and bought shares

totalling £5 million in the Laird Group (the hived off shipbuilding section of Cammell Laird) by the time of the Conservative electoral victory. By August 1971, the government had already raised the credit limit for home shipbuilding to £1,000m and extended the life of the SIB to the end of 1971 from when it was allowed to lapse. Harland and Wolff was more or less taken over by the government of Northern Ireland in December 1970, following its collapse. In June 1971, the government rejected a request for immediate aid from UCS and called in a liquidation committee who recommended closing two of the four yards. This sparked off the famous sit-in which lasted months and provided the prototype of another form of industrial action that soon spread to other firms threatened with closure and even to straightforward industrial disputes. Fortunately, between February and April 1972, the Tories compromised their tough stance, finding and subsidising a buyer for one of the yards and absorbing the other into the renamed Govan Shipbuilding which received an additional aid package of £35 million. Cammell Laird likewise received another £20 million in loans between August 1971 and September 1972, and further aid was extended to other firms under the terms of the Industry Act of 1972, including £33.5 million for Harland and Wolff. As a result the shipbuilding industry had received some £153 million in 1970 prices in government aid between 1964/5 and 1973/4 of which approximately £100 million had been extended under the Tories. Similarly, despite their ideological intentions the state now owned Govan Shipbuilders, half of Cammell Laird and 47.6% of Harland and Wolff (Blackaby, pp. 461-71 and 478).

State sponsored reorganisation had likewise largely determined the structure of the aerospace industry, although in this case the basic mergers had occurred under the Conservatives in 1959-60 leaving three main producers of air frames and two of engines.

A further amalgamation under Labour had reduced aero-engine manufacture to a single firm, Rolls Royce, while some of the smaller air frame producers were allowed to go into liquidation. The rising time span and costs of development projects, especially Concorde and the RB 211 engine began to cause financial trouble for Rolls Royce by the late 1960s, despite extensive government aid totalling some £130 million for those two projects alone by 1969/70 (ibid., p. 458). Although the Heath government had exempted the aircraft industry from the "no lame ducks" regime, there can be no doubt that they did not really bargain for the amount and form of state aid eventually required to save it from bankruptcy. Despite another mixed public and private aid package of £60 million for the RB 211 project in November 1970, by the following February Rolls Royce had called in the receiver and state ownership was extended to the company's aircraft divisions. Subsequent renegotiations on the engine contract with Lockheed resulted in a further subsidy of an estimated £190 - 195 million, and the Concorde project likewise received annual extensions on development costs, none of which the government was likely to recover. In the end the aerospace industry as a whole had received some £758 million in 1970 prices of state expenditure in various forms between 1960/61 and 1973/4 of which nearly half had been advanced in the last four financial years, mainly for the two troubled and costly projects (ibid., and pp. 450-61).

The collapse of Rolls Royce in February 1971 may be taken as the starting point for the re-evaluation of Conservative industrial policy. The Expenditure Committee's Sub-Committee on Trading and Industry appointed at the same time held a series of meetings from the next month that lasted a year. These delved into the general question of "the objectives and effectiveness of financial aid provided by the Government to the private sector of industry", and

led to the publication of the report, Public Money in the Private Sector in July 1972 (Expenditure Committee, Sixth Report, Session 1971-2, Vol. 1, p. 5). These sittings took evidence from a cross-section of major industrialists, primarily those previously or presently involved in para-state agencies or whose firms had received substantial aid, as well as top civil servants from the Treasury and the Department of Trade and Industry. While not representative of the total range of opinion in manufacturing, it did give an effective platform to those "progressive industrialists" (and even one merchant banker) who favoured a more "flexible" policy regarding state relations with the private sector. It also took evidence from the CBI which backed this group's general perspectives to a somewhat surprising extent, and this deserves careful scrutiny.

In the main the consensus theme of this testimony supported the ad hoc intervention that characterised the Labour (and eventually) the Tory governments. Those industrialists and bureaucrats who appeared before the Sub-Committee were generally loathe to stipulate any consistent principles for guiding state aid to intervention in the private sector. For example, Sir Frank Figgures, then Director General of the NEDO, stated with regard to this issue that "I would doubt whether it is possible to find general criteria which enable one to judge". At the same time he felt that such intervention should be placed in the context of "strategic judgements" regarding structural policy (ibid., Vol. III, p. 520). Sir Arnold Weinstock voiced a similar opinion:

The sophistication of technology is now such that in some fields there will be no industrial survival without Government participation, and one can name some things, nuclear power generation is one, the aircraft industry is a second, the aircraft engine industry is a third ... There are other industries which from time to time will need special protection if they are to survive. (ibid., Vol. II, p. 275.)

This contradiction between principle and the practicality of state aid was best expressed by Sir Kenneth Keith:

I think it is terrible difficult to be dogmatic.... As a general principle I am 'agin'. I am a strong supporter of free enterprise and I am a strong supporter of industry pulling itself up by its own bootstraps. If it is not viable long term it is going to go to the wall. But there are cases like Rolls Royce. There are cases, I think, like ICL where the national interest is involved ... It is necessary in the aircraft industry and these may be expensive, very technologically based companies for Government money to be put in. I think each case needs looking at on its own merits. (ibid., Vol. III, p. 463.)

As one might expect representatives from the shipbuilding and aircraft industries and their corresponding government departments reiterated the "special case" criteria which qualified them for exceptional aid despite their objections to state funded capital formation. These criteria typically included economic and social importance, e.g. for reasons of defense and employment, subsidies offered by other governments, the inability to raise private finance for long-term and costly development projects, "short term" cash flow problems as a result of the same, uncertain markets, spin-off effects, etc. (ibid., pp. 101-105, 124-125, 146-153, and 171-176).

The evidence of the CBI to a certain extent cut against the grain of this sort of tendency. In its written memorandum the CBI actually did attempt to articulate general principles of state aid to industry which largely supported a neo-liberal strategy. This submission gave full marks to the efficiency of the market and competition in the allocation of national resources. The function of the state was simply "to create a climate within which industry is allowed to get on with the job of creating the wealth of the country". Apart from the provision of an economic and social infrastructure, the CBI presented the government's role largely in negative terms, i.e. removing the obstacles to market forces, ending discrimination between industries on any grounds other than profitability, and removing aid other than

tax incentives (ibid., Vol. II, pp. 302-4, and CBI, 1972). It likewise supported the removal of the Regional Employment Premium and the switch from investment grants to tax allowances (ibid., pp. 305-6). However, the CBI modified this tough ideological stance in several respects. It noted several exceptions to the rule of market forces, namely environmental questions of social costs and industries whose foreign rivals received state subsidies. It conceded as well the case for regional policy, although here it argued for greater consistency and less discrimination to take account of "the long term nature of industrial planning" (ibid., p. 305). On the question of state support for R & D it admitted that there was "little scope for increasing the proportion of the cost of government research laboratories paid directly by industry" as "at present industrial research and development budgets are under heavy pressure" (ibid., p. 307). Similarly, it allowed for state funding of private R & D expenditure but argued somewhat bizarrely that this did not count as a subsidy. In this case it supported the introduction of rather vague commercial criteria, i.e. evaluating the costs of R & D projects in terms of the commitment of national resources and a more careful financial review of their financial prospects. It also called for five-year forecasts of government R & D expenditure (ibid., pp. 306-310).

The oral evidence from CBI members further eroded the hard line of the written submission. Sir Arthur Norman, the Vice President, conceded that specific industries required state aid and could only criticise "intelligent ad hocery" by calling for "more consistent and longer-term policies" (ibid., pp. 314-315). Michael Shanks attempted to insert a degree of consistency by offering four criteria of exceptions to the general rule of market forces: short-term cyclical problems, industries competing with foreign subsidised firms, industries with

cash flow problems but long term financial viability and those sectors "where the contribution to the economy is always likely to be greater than the actual reflected accounted profits" (pp. 315-16). Thus, when questioned closely by the Sub-Committee, the CBI members had to drop the strict neo-liberal ideology expressed in the written statement. In effect they too offered critical support for the system that had emerged in the 1960s although they were loathe to admit it.

Of greater interest than the attempts by industrialists to reconcile the principles of free market capitalism with ad hoc state support for troubled firms were the discussions of the role of the IRC and the issues of state financed capital formation. Not surprisingly, perhaps, these major industrialists generally favoured the idea of an agency performing that sort of function. Lord Stokes, of course not exactly disinterested as a former member of that body, nevertheless argued that

the IRC did a magnificent job in helping to stimulate mergers in some companies which had got a little sluggish it was done very admirably by the IRC because it was slightly at arms length from government and whereas there was a certain suspicion of IRC in the early days it was remarkable the number of industrialists who came to consult us with the feeling that they were talking to fellow industrialists themselves, particularly when they found out we had not any personal aims or ambitions, that we were only trying to help them. (ibid., p. 200)

Virtually every other industrialist gave similar testimony, including those who had not directly served on the IRC board. Even Sir Arthur Norman and Michael Shanks of the CBI noted that while "on the whole, the CBI membership was not disappointed to see it go", they personally were "not glad" and "sorry" (ibid., pp. 316-17).

The problem with regard to capital formation was simply another aspect of the contradiction between ideological predilection and practical need. Virtually every industrialist agreed with Norman's

view that he "would have preferred to see the money coming from the institutions of the City of London". The difficulty here was that industrialists perceived the necessity for "a lender of last resort ... in a position to respond rather than dictate, that is, fill gaps which the normal capital market will not fill because, in fact, the profitability and return are somewhat further away than the capital market is looking for" (ibid.). Sir Frederick Catherwood likewise saw the use of an agency that would bridge the gap between the interests of shareholders and boards of directors: "The City, in my mind, should do this but there is a vacuum here and you can fill it with the IRC or from the City" (ibid., p. 234). Sir Kenneth Keith of Hill Samuel likewise thought it "a pity" that the IRC was abolished and could only respond negatively when asked directly whether the City and in particular its brainchild, Finance Capital for Industry (FCI), would fill the hole left by the former's demise (ibid., Vol. III, pp. 462-3). The somewhat concealed agenda of these discussions is perhaps best revealed in the following exchange between Mark Hughes, MP, and Aubrey Jones, the former head of the PIB and Tory MP:

Mr. Hughes - You have said that [the capital market] will not work because its calculus is too narrow. The alternative that you pose is that the assistance of a para-governmental body should be given to prop up private capitalism?

Mr. Jones - To give private capitalism a wider outlook, to put the whole thing in reverse. (ibid., Vol. II, p. 241.)

In general the industrialists favoured the notion of an agency performing the roles of the IRC, although less as a catalyst when appropriate for merger and rationalisation than as a bridge between management and shareholders, and a lender of last resort to firms with large capital needs but short-term cash flow problems. The "proprietorial gap" figured much more strongly than the need for centralisation because, as Sir Joseph Lockwood put it, "the shareholders do not have enough control over the management" (ibid., Vol. III, p. 430).

Ironically, this growing concern had partly arisen from the IRC policy of "restructuring", which was in the words of Ronald Grierson "a modern idiom for the old word rationalisation or the even older one cartelisation" (Vol. II, p. 263). That is, the pro-merger programme of the IRC together with the amalgamation boom had produced a situation in which competitive forces might not act as a sufficient disciplining force on the large and rather unwieldy firms whose owners were increasingly remote from day to day management. Somewhat greater division existed on the exact nature of such an agency, but most concurred with the view expressed by the CBI spokesmen that it should fuse the roles of the IRC and the City's FCI. Any new organisation might even take an equity stake in its industrial clients, but it should be a mixed public-private venture to secure industrial confidence against the fears of back door nationalisation (ibid., pp. 324-5). Or as argued by (now Sir) Charles Villiers, given that the public sector supplied roughly half the investment in the economy, there was a need to get the unavoidable relationship between the state and industry "on to the proved commercial lines" (ibid., Vol. III, p. 427). If the IRC had largely fulfilled its "restructuring" role in the 1960s, he still foresaw the usefulness of some kind of quasi-public "industrial development bank" supplying entrepreneurial investment funds. Unfortunately FCI could not fill that entrepreneurial gap of providing large scale risk capital as its "hands were considerably tied, both by shareholders and by the banks who supplied it with funds" (ibid., p. 431). Such concerns were reinforced by the view expressed by CBI representatives that industrial regeneration required raising capital investment from 11 to 17 or 18% of GNP, and that such a project was simply beyond the resources of a City-based institution like FCI (ibid., Vol. II, pp. 322-5).

but in other respects went well beyond the tentative suggestions of industrial spokesmen. It differed substantially particularly from the CBI written memorandum by advocating "a much greater degree of discrimination and selectivity in the administration of financial aid to the private sector of industry." Thus, they came out strongly in favour of investment grants rather than tax incentives, a parallel but expanded system for the Development Areas as well as the prolongation of the REP (ibid., pp. 343-47). Likewise, the thrust of their support for public aid to the private sector had a distinct emphasis of a corporatist character, downplaying commercial criteria. Instead they offered three main justifications -

1. to retain and strengthen Britain's growth potential and international competitiveness ...
2. to help ensure the fulfillment of the social responsibilities of industry ... [and]
3. to facilitate the integration of private corporate objectives into national economic and social objectives (ibid., p. 343).

As such it rightly castigated the ad hoc provision of aid as less directed to those objectives than "a response to the immediate problems of survival" (p. 347). Following this line of argument the TUC was more forthright than industrialists in reaching a similar but more explicit conclusion:

The divorce between the financial and industrial sectors still has damaging consequences. There is indeed often a direct conflict between the interests of the City and the owners of capital on the one hand and those of productive industry on the other: the former benefit from high interest rates, and the latter from cheap money. For the financial sector the need for a quick return in terms of accounting profit is paramount whilst industry needs a long period of consolidated investment and growth. Moreover, although the financial sector claims the right to steer funds into particular industries by reference to market sentiment, this is often exclusively based on short term movements on the Stock Exchange rather than to [sic] long term growth potential. (ibid., pp. 348-9)

On these grounds the memorandum again pointed out the divergent practices of foreign countries, especially Italy, and called for direct state intervention in the capital market through the establishment of a public agency able both to provide loan capital and take controlling

or minority equity stakes to achieve the desired investment patterns (ibid.).

While some of the industrialists offered specific criticisms of the IRC role, a more straightforward rejection of the case for para-state agency came from representatives of City institutions and the relevant government departments. Lord Sherfield of ICFC thought that such a special body was unnecessary, that the money markets were generally sufficient for the needs of industry and that any funnelling of public funds was best left to existing departments (Vol.III, pp. 401-2). The representatives of FCI were less direct but their testimony did serve the function of excluding the proposal that that institution form the nucleus of any future mixed development bank. First, their borrowing capacity was still limited to £100 million that had been set when they were initially set up in 1945 by the Bank of England and various City institutions (p. 388). Moreover, they thought that their principal shareholders "would be reluctant to see our borrowing limits very much increased in so far as it must increase the risk that their uncalled liability would be called up" (p. 395). Secondly they remarked that such high risk high technology projects as the RB 211 and especially Concorde were beyond the scope of any City institution because of the inability to see "(a) the end of its commitment or (b) the ultimate profitability or return on its money" (p. 390). They raised the problem of public accountability if state funds were channelled through an essentially private corporation (p. 389). Lastly, it pointed out that while it had financed at least one merger, it could not imitate the IRC's initiating role without substantial reorganisation (p. 394).

Representatives of the Treasury and the DTI echoed this view that City markets were effective in providing risk capital and that

no special agency was needed. In the words of Sir Samuel Goldman

I think the triangular relationship between the Departments and Government generally, the firm or company involved, and the City is such, or could be such that the capital requirements one would look for from the City, could be mobilised perfectly adequately without the intermediary of a separate institution... (p. 583.)

Moreover, he stressed the point that

it is important if para-governmental institutions are set up that their working does not impair the working of the private capital system which is to be found in the City (ibid.).

In addition he asserted with regard to such organisations that

the Treasury would regard it as an important part of its function in assessing the desirability of a project of this kind to attempt some sort of evaluation of the cost of this and the relations between this additional cost and the other things on which the Government might wish to spend money (ibid.).

That is, he wanted to ensure the extension of "Treasury control" to cover the activities of any such agency. The DTI spokesman, Sir Anthony Part echoed Goldman's case against a para-state institution, although he framed his objections more in terms of the greater Parliamentary scrutiny afforded by departmental control (pp. 578 and 581-2).

The Committee's inquiries on these issues took an interesting turn. Following up the suggestion made by the TUC as well as at least one of the industrialists (viz. Sir Joseph Lockwood, ibid., p. 430) that foreign practices regarding industrial finance might have something to offer, it commissioned a special report on European para-government agencies by a Mr. Stuart Holland. This memorandum investigated industrial development banks and state holding companies in various countries, paying special attention to the Italian Industrial Reconstruction Institute (IRI). The report plumped heavily for the state holding company model partly because of its potential as an instrument for counter-cyclical investment in the context of national planning, but mainly owing to the inherent weaknesses of simple lending agencies. That is, it pointed out the basic contradiction in the

solution preferred by industrial spokesmen, firms most in need of financial assistance were inevitably those which would not qualify for commercial loans (*ibid.*, pp. 740-53). This report led to a fact-finding trip by the Sub-Committee to investigate the Italian para-state organisations in April 1972. Discussions with various officials and industrialists emphasised the utility of a state holding company in terms of both regional planning and as a provider of entrepreneurial capital for industry (*ibid.*, pp. 753-73).

The Sub-Committee's final report mainly summarised the evidence given by the various witnesses. In so far as it reached substantive conclusions, these were primarily in two areas. First, on the general question of the criteria for public aid it essentially supported the rule that private industry should stand on its own feet, but noted the numerous exceptions justifying public intervention, i.e. international competition, defense requirements, balance of payments considerations, essential industries, advanced technology, and social needs. (*ibid.*, Vol. I, pp. 11-18). Looking in detail at the major cases of public assistance in shipbuilding and aerospace, as well as other industries, it mainly called for greater clarity on the criteria for assistance and more Parliamentary accountability (chs. 3-5, especially pp. 33 and 43-4). Regarding regional policy the same points were made with the additional caveat that the lack of hard information regarding especially the effects of regional incentives and IDCs made evaluation particularly difficult (ch. 6, especially pp. 56-7). More interesting for our purposes were the conclusions regarding the form and scope of the proposed para-state agency for industrial investment. While the Sub-Committee did not make any firm recommendations on such a hot political potato, it did offer critical comment on some of the suggestions. Regarding the schemes of industrial spokesmen it noted the difficulty of the necessary separation in accounting, handling and spending

public and private money in any mixed venture. It likewise rejected the choice of either FCI or ICFC as a model or nucleus of any para-state finance institute, except in so far as they might serve in an advisory capacity. Remarking on the benefits of such an agency offering equity as well as loan capital, it gave a very favourable view of the advantages of the IRI model (*ibid.*, pp. 68-77). Lastly it trod the rather delicate path between the request from industry that any such body should be fairly independent from political control and "the important criticism made by Government witnesses that accountability to Parliament is necessarily less if assistance is handled through an agency than if it is channelled directly through a Government department" (p. 77). In sum while the report refrained from a specific outline, it did rather come down on the side of the state holding company model.

In the period during which the Sub-Committee took evidence, the Conservative government completed its u-turn on industrial policy. It did not in the end complete the brief outlined above, that is, no attempt was made to institute a state holding company, industrial bank or similar institution. It was left once again to Labour to pick up and attempt to run with that particular football. Rather, as documented in the White Paper, Industrial and Regional Development, published in March 1972, the Tories chose to stay within the bounds dictated by Civil Service and City opinion. They opted instead for an "Industrial Development Executive" within the DTI, which would recruit ex-officio members from industry and the City, and fulfill a purely advisory function (paras. 41-42). Secondly, through the Industry Bill 1972 they passed enabling legislation which would allow the extension of financial assistance to the private sector at the discretion of the government and the relevant departments. The infamous Clause Seven of the Bill provided the Secretary of State for Industry with the power

to offer selective assistance on virtually unlimited criteria including "investment by acquisition of loan or share capital in any company", purchase of an undertaking, granting secured or unsecured loans with or without interest or any form of insurance or guarantee. The only constraints placed on the Secretary of State were an upper financial limit of £250 million with additional drawing power of £300 million given consent of the Treasury and the provision that share acquisitions could only be made with consent of the company concerned and had to be disposed of as soon as possible (Clause Eight). The Conservatives thus were forced to return most of the way to the pattern of voluntarist corporatism in industrial matters established in the 1960s, although as usual they were far less willing to challenge the views of the dominant power bloc. By the end of their term of office it is almost certain that they had diverted at least as much and most likely more public money into private industry as had the previous government. Looking at aerospace, shipbuilding, textiles and the IRC alone, state expenditure in constant 1970 prices on industrial intervention in the years 1970/1 to 1973/4 totalled some £504 million, while the equivalent under Labour equalled £485 million (Blackaby, p. 478). More significantly, if one places the industrial legislation in the context of other extensions of state intervention in industrial relations, incomes policy, and housing finance, they had inadvertently constructed, in the words of one not exactly unsympathetic critic, "The most comprehensive armoury of Government control that has ever been assembled for use over private industry, far exceeding all the powers thought to be necessary by the last Labour Government" (T. Benn, 1973). The same person was more than ready to make use of such powers when the next Labour government returned to the helm.

Capital Formation - The Emerging Critique and the City's Response

As the testimony to the Expenditure Committee analysed above indicates, yet another plank of the post-war settlement was rotting away during the Heath government, namely the depoliticisation of capital formation. By the time of Labour's return to power the issues surrounding investment, profitability, and the City's role in respect to industry had become the focus of a major political dispute. The main forum in the emerging controversy was, of course, the Labour Party, in particular its National Executive. Discussion here began with the post mortum of Labour's period in office. Essentially the failure of the programme of voluntaristic corporatism and the general morass that engulfed every aspect of the economic and industrial policies of the Wilson government prompted a re-evaluation of planning, incomes policies, and relations with the unions, not to mention social issues, industrial democracy and inequality. This crise de conscience particularly affected those associated with the planning movement who perceived its collapse as due to several factors: 1. the lack of effective instruments of control, 2. the vacillation on institutional reform, especially regarding the power of the Treasury and the Bank of England and their links with the City, and 3. the absence of a wider framework of social justice which could persuade the unions to accept wage restraint voluntarily.

As early as October 1970, for example, Wilson's close advisor Thomas (now Lord) Balogh published a Fabian pamphlet attacking the Labour leader's record in all these areas (Balogh, 1970). While critical of the unions as the source of wage inflation he predicted that future incomes policies would only work in the context of a radical social and economic programme. Thus he pinpointed the social democratic dilemma: only accelerated growth and higher real incomes

could establish the basis for the successful pursuit of these policies, but growth in turn depended on higher productivity and improving not only the quality but the volume of investment. Relying on higher profits would not ensure the latter and would likewise decrease the possibility of a deal with the unions. Consequently, an extension of public ownership seemed to be the key, not only for raising investment levels, but to ensure greater public accountability and a more equitable distribution of income. While overly blithe about the real effects of "restructuring of industry" under Labour, Balogh saw that expanding the powers and the financial base of the IRC and the introduction of worker participation would be crucial aspects of a new "contrat social". The programme was simple, "a double pronged attack" raising investment and productivity on the one hand and holding down wages on the other (ibid., p. 40). The problem with it was likewise two-fold, defining the exact content of the package and finding the ground for consensus when even the existing low growth rate proved "extravagant".

In the event these themes were picked up by two "young turk" advisors to the Wilson government, Richard Pryke and Stuart Holland. Pryke had resigned his post at the Cabinet Office because of the crisis measures of July 1966 and written a critical book advocating both a competitive strategy for public enterprise and a state holding company on the IRI model to promote new enterprise and regional development (Pryke, 1967, especially ch. 4).

Holland had left his position at Number 10 in 1968, pursued a research project on the IRI and began to develop the same ideas into a fairly coherent programme. Briefly, Holland's basic notion was a kind of advanced Keynesianism. Keynesian demand management policies had proved insufficient in resolving the structural aspects of the growth process which the market alone could not overcome, especially structural

and regional unemployment and sectoral under-investment. These problems were further exacerbated through the internationalisation of capital, as multinational firms increasingly both encouraged regional disparity and thwarted standard fiscal and monetary instruments. In these circumstances the state had to step in and assume the role of entrepreneur. Through direct intervention and planning the state would not so much substitute itself for the market as ensure the large-scale investment providing the conditions which would make the market work. The institution of a state holding company would both strengthen the government's hand against multinationals and give it the necessary leverage to make planning and intervention effective (Holland, 1971, and 1972). Through the acquisition of even minority share holdings such an institution could build up a competitive public sector which would give an adequate basis for the new industrial strategy:

In other words, state firms purposively used can influence private firms within a sector without actually controlling them, and can do so at various levels including the scale, rate and location of investment, and price competition between products (Holland, 1972, p. 3).

These ideas surfaced organisationally at a special conference called by the NEC's industrial policy sub-committee in February 1972. As developed here and at subsequent meetings of the sub-committee's working groups on the public sector and economic planning, Holland's scheme soon included various other proposals to win support of trade unionists and the Party left (Hartley-Brewer, 1975). Essentially, these were 1. the so called programme contracts or compulsory planning agreements between the envisioned NEB and leading firms, 2. the disclosure of relevant information on medium term corporate plans to make the planning agreements possible, 3. provisions for industrial democracy, and 4. the nationalisation of twenty top manufacturing firms, one of the big three clearing banks and two or three insurance companies. The increasingly radical nature of these proposals, especially the industrial democracy plank, reportedly won the support

of Tony Benn, who took over the chair of the sub-committee in December (ibid.). The publication of the public sector working group's draft plan for the NEB as an Opposition Green Paper in March 1973, grafted these aspects onto the original trunk including the "25 companies" proposal (Labour Party - NEC, 1973). This report was incorporated more or less in toto in the National Executive's document, Labour's Programme 1973, presented to the Annual Conference in the same year (Labour Party, 1973).

At Conference the draft plan received its first watering down, partly owing to a skillful speech by (now Sir) Harold Wilson in the debate on the public sector. After a ritualistic attack on the "remote boardrooms" of the multinationals and the "irresponsible seats of power within the City of London", Wilson announced the intention of a future Labour government to nationalise the docks, development land, shipbuilding and aircraft as well as unspecified sections of the pharmaceutical, machine tool, construction and road haulage industries (Labour Party Report, 1973, pp. 160-70). He likewise confirmed the introduction of the planning agreements system, industrial democracy, a new industry act and the NEB. However, Wilson left little doubt as to the fate of the "25 companies" proposal:

I am against it. The Parliamentary Committee is against it. I will leave it with these words, that the Parliamentary Committee charged by the Constitution with the duty of sitting down with the Executive to select, from the Programme adopted by the Conference the items for including in the election manifesto, entirely reserves its full constitutional rights on this matter, and there could be nothing more comradely than that (ibid., p. 167).

The voting on this section of the programme confirmed his free hand. A motion to extend the shopping list to "250 major monopolies" was overwhelmingly defeated. Instead, Conference unanimously approved a vague motion supporting the programme of the National Executive "for early nationalisation of important parts of the British economy".

However, a third resolution in at least partial contradiction with the previous one, in that it rejected "The concept of shopping lists of industries and companies for social ownership" likewise passed, albeit by a small margin of 3,839,000 to 2,217,000, despite the support of Tony Benn and the NEC (ibid., pp. 170-88). Given this ambiguous compromise the shopping list proposal did not appear on the 1974 election manifesto.

In the meantime critical comment on the relationship between industry and finance, initiated by the Trade and Industry Sub-Committee, began to filter through to the financial press. An article in The Banker in February 1972, had contrasted the City's "extraordinary recovery" in the 1960s with the comparatively low levels of domestic industrial investment. It claimed that the view was widespread that both Britain and the US, the two countries with the most developed systems of stock exchange finance, were moving towards the German and Japanese systems of bank finance. At the same time it reiterated the traditional objections to banks involving more than a fraction of their assets in venture capital but remarked,

Some bankers use this argument to justify the City's non-intervention in industrial affairs. But one does not need to argue that the banks themselves should invest more of their own resources in industry if all one wants is more City involvement in management (The Banker, 1972, p. 145).

A subsequent article reported that "The Bank of England had been talking for some time with leading commercial bankers and investors about ways of collaborating with industrial companies in securing increased efficiency where that seemed to be needed" (ibid., p. 453). It likewise called for more industrial expertise in the banks, but little else. This activity led to the request of Sir Leslie O'Brien, the Governor of the Bank, for the setting up of a City Working Party on increasing efficiency, but even that limited enterprise failed to get the backing of the merchant or clearing banks or the issuing houses.

He best expressed his attitude on the subject of industry-finance relations in a speech to the Institute of Bankers in January 1973:

Perhaps the most likely development will be the arrival of the all-purpose bank in the United Kingdom. This will not be unwelcome provided it does not lead to the submerging of the special talents and expertise of the merchant banker. Less likely and less welcome, in my opinion, will be a change in the relationship between the main deposit banks and industry in imitation of some continental models. Many have yearned for such a change ever since the Macmillan Report of 1931 and probably for longer, and certainly one can sympathise with the desire to see pressure through the medium of the banking system being brought to bear on industry to improve its efficiency. This is a vitally important objective which has got to be achieved somehow, and, as you know, I have so far had only moderate success in persuading the institutional investor to take on this task. I shall persevere but I would not think it right to seek to persuade the banks to become large-scale equity investors in industry so that they may do the job. I prefer banks to run their businesses primarily with the accent on liquidity and with the safety of their depositors in mind, as our banks have always done. (BEQB, 1973, pp. 57-8.)

The negative response of financial institutions to even the extremely mild call by the Governor for collaboration with industry increasingly alarmed the editors of The Banker:

The reasons advanced by the dissenting groups for standing aside are familiar and respectable even though they contain an element of short-sightedness. The clearing banks have kept up the pretence that they lend only short-term funds to industries and are therefore not involved in managerial success or failure. This view is quite unrealistic as a large and growing portion of bank credit is, in fact, used by the borrowers as capital (The Banker, 1973, p. 9).

Encouragement of industrial expertise was necessary to secure the position of British banks in the EEC and to stave off the likely state intervention if self-regulation did not produce some results.

"The next step forward," the article warned, "will probably be associated with some cause célèbre that will force the City to sit up and take notice" (ibid., p. 10). However, another article a few months later voiced the opinion that little had come of the promotional efforts of the Governor of the Bank of England and the City Working Party to involve the banks in industry:

The banks insist on concentrating on the financial aspects of industry; but the government has been able to point out that

this has not been very effective in preventing disasters like Rolls Royce, Mersey Harbour Board, or Upper Clyde Shipbuilders (*ibid.*, p. 457).

In this context, then, the IBRO report commissioned by the CPRS intervened offering both short-term predictions and advice on the future relationship of the banks with industrial capital. After noting the existence of two opposing views on this relationship, what they termed integrationist versus the separatist, they also brought out the distinction between the private organisation of the German and Japanese integrated systems as against the state dominated systems of France and Italy. The rise of institutional investors was depicted as the key to the British case, raising the prospect of moving towards the German/Japanese approach. Expressing the fear that disputes between the protagonists of the various alternatives could "unsettle London's future development as an international financial centre," given Labour's commitment to a state holding company, it argued that in any case "the United Kingdom does not have an open, market-oriented financial system," that is, that the traditional separatism of City institutions was being eroded in fact even if this had not been recognised (IBRO, pp. 1-36-7). Moreover, it was

.... realistic to expect that in fact, as monetary integration and financial harmonisation proceed in Europe, there will evolve a structure of European financial institutions that incorporates features from the British, the German, and the French/Italian systems, the precise balance being determined piecemeal as matters develop. London's prospects as an international financial centre will thus probably be enhanced both by allowing the British banking system to move rather further in the German direction, and by preparing British public sector financial institutions to compete effectively against their European counterparts. As a senior official from one of the Big Four clearing banks emphasised in conversation with us, it will be important for London to become the leading centre not only for Europe's commercial banking system but also for Europe's giro, savings bank, and building society movements too (IBRO, pp. 1-35).

Directly related to the above, IBRO recollected the impression of the Radcliffe Committee as far back as 1959 that "the market for credit is a single market", and reported that since then the trend

towards that direction had continued apace including the markets for cash flow management and advisory services:

London's position as a leading financial centre has been based on the multiplicity and specialisation of the financial intermediaries operating there, but structural and technological changes in the financial services industry are pointing firmly towards the concentration of financial business in a smaller number of larger multi-purpose financial institutions (IBRO, pp. 1-27).

It recommended state encouragement of these tendencies in the direction of German "universal banks".

The IBRO report, was of course, never officially adopted as government policy under Heath or Labour and can be taken as representative of only the most "progressive" sections of City opinion. In general, banking capital responded very defensively to the political crisis which erupted in 1974 with the increased volatility of class struggle, the consequent fall of the Tory government, the serious squeeze on profits and corporate liquidity and the Labour Party's proposals for an extension of the public sector, particularly into finance. The only institutional change was the setting up of Finance for Industry by merging the Finance Corporation for Industry with the Industrial and Commercial Finance Corporation in late 1973, relics themselves of banking capital's minimal and delayed response to the criticisms of the Macmillan Committee and founded under the Attlee government.

This merger was fairly blatantly a sop to the City's critics, given that no changes in banking practices were contemplated. One need only consult the first annual report of FFI for evidence of the continued domination of "sound financial practices":

The primary function of the Group will continue to be the provision of medium and long term finance for the development of British industry, but the priority given to profitable investments in the United Kingdom will not preclude similar investments overseas (my emphasis) (FFI, Annual Report, I, p. 4).

At the same time articles in The Banker reflected a hardening of attitudes and lack of willingness to discuss any changes in the financial system. An editorial in February 1974, denounced all critics under the heading, "The City must counter attack", even the "mild, sweet-tempered people" who drafted the IBRO report, and called for resistance to all attempts to extend political control, whatever the intentions (The Banker, 1974, pp. 151-3). Similarly, Kenneth Fleet, the City Editor of the Daily Telegraph, opposed the move towards universal banks of the German type, although he also wanted to "re-establish the City as a provider of capital for industry (sic)" (ibid., p. 183). A Mr. Yassokovich, Managing Director of the European Banking Corporation, advocated a "better PR effort" to restore the City's deteriorating national image (ibid., p. 153). And another article proposed a refurbishing of the City Liason Committee set up initially in 1965 to lead such an effort in the combat against Labour's proposals, given that "the quiet chat at the club" or "a scribbled note to the head of the civil service" was no longer sufficient (ibid., p. 859).

Perhaps the most novel proposal in this period of obvious retrenchment was that of a former senior civil servant Neville Abraham in response to Lord O'Brien's suggestion of some sort of "ginger group" of institutional shareholders to vet management performance. Abraham favoured fulfilling this aim through a mixed-enterprise agency, independent of control of central government. Such a "Shareholders Management Corporation" would buy minimal shares in all major industries and "thus become the means to link the institutional investors of the City with the Government shareholder" (ibid., p. 874). The SMC would be in other words a version of the IRC more under the direct control of banking capital, avoiding the direct risk of major investment, but providing advice "with the orthodox aim of improving efficiency, not as with the NEB to save jobs" (ibid., p. 876). Abraham in effect

picked up some of the suggestions by leading industrialists to the Trade and Industry Sub-Committee, and as elaborated in his book published the same year, went so far as to recommend some form of worker participation and "a concordat between main political parties and other centres of influence" on key issues of economic relations (Abraham, 1974, p. 7). Abraham's "Bankers' corporation" never got anywhere, although it is at least of interest to note his similarity in both style and content with a slightly earlier publication by the "cybernetic" Tony Benn (T. Benn, 1970). More typical was the increasingly shrill attack on even mild criticism, which grew to panic proportions after Labour's return as a minority government in March 1974.

Conclusion

By the beginning of 1974 the Conservative government was in disarray on virtually every front. The neo-liberal campaign had been rolled back in industrial relations, income, monetary and fiscal policy, public expenditure control and state intervention (or the lack of it) in industry. Indeed, the Tories found themselves engulfed by a crisis of unparalleled severity for the post-war period, as not entirely unrelated aspects of liquidity strain, financial panic and industrial conflict combined in the winter of 1973-74 to send stock prices in a downward spiral. While the miners' strike stole the newspaper headlines, the financial crisis was at least as important an element in the loss of business confidence in the government. Claims made at the time and subsequently that the NUM "brought down" the government are certainly overblown, although the strike against a statutory incomes policy certainly played a major part in undermining Heath's credibility. More accurately the Conservatives had appeared rather frantic for some time in their grasping at new policy measures to cope with the accelerating crisis. By the end the government's authority had simply collapsed. The loss of support even in business circles was symbolically expressed by the head of the CBI, Sir Campbell Adamson, who declared during the election campaign that the Industrial Relations Act had been "a mistake".

In reference to the general model of the state propounded earlier Conservative strategy was characterised by a general failure to break out of the mould of voluntaristic corporatism along any of the dimensions of input, output or mode of procedure. In terms of representation the attempt to stand back from tripartite consultations foundered when the government sought to reintroduce incomes policy as a substantial plank in its economic policy. Ultimately the lack of progress in the effort

to secure TUC co-operation on voluntary restraint led to the introduction of statutory measures, but these too proved unworkable in a very short space of time. By the end the government seemed to have backed into an impossible position, unable to function effectively with or without the involvement of the unions, owing to the hostility provoked by the Industrial Relations Act. Had the latter survived it would have considerably modified the voluntaristic framework of labour relations and union representation through its general assertion of the authority of the state over these nominally independent organisations. As pointed out earlier industrial relations legislation more than any other aspect of Tory policy contained the seed of a more statutory version of corporatism, even if in the end it did not come to fruition.

As regards output the non-interventionist plank of the Tory programme of course collapsed with the decision to bail out Rolls Royce and UCS. Here the government simply reverted to the previous mode of ad hoc intervention and support, although there was no attempt to systematise state aid through the introduction of an IRC - type agency, despite considerable support for the idea from industrial capital. This simply reflected the lack of any coherent Tory policy on the issue of state intervention apart from a purely negative attitude. Drawn into financial support of various firms and sectors against its ideological commitments, it could hardly work such measures into a general economic programme. Similarly, the introduction of wage and price controls could only be justified as short-term expedient rather than as a central element in Tory economic philosophy. In the end Heath had in some respects gone further than Wilson in extending the pattern of state controls on the private sector. When Labour returned to office it had at its disposal a range of instruments written into the statute books through enabling legislation which could be used as a basis for a more comprehensive programme of

state regulation.

Only along the axis of mode of procedure had the Conservatives maintained the previous "technocratic" line more or less intact. The output-oriented, functionalist mode of administrative organisation and controlling state expenditure fitted more easily into the business ethos of the Heath government. However, in this area as well the limits of administrative planning became increasingly apparent. Through both the dysfunctional consequences of projecting state expenditure in volume terms on the basis of unrealistic growth expectations and the ultimate fact that expenditure could not be isolated from political control. When the crunch came policy in this area as in every other followed the dictates of short-term political considerations in response to economic and social forces.

More significantly over the course of the Heath term of office two pillars of the post-war settlement had been seriously damaged. The traditional separation of economic and political demands in the Labour movement had at least partially dissolved as the unions undertook political action outside Parliament, and even industrial disputes took on a political colouring in the context of a statutory incomes policy. This process culminated with the miners' "strike against the government" in the winter of 1974, not the only reason but certainly a major factor behind the call for an election and the Tories' defeat at the polls. Secondly, in a similar manner the process of capital formation had become politicised, an issue which had laid more or less dormant since the Attlee government. The raising and allocation of investment finance through the market mechanisms of the City were now openly questioned and not just by the left wing of the Labour Party and the unions. The new government thus had not only the

immediate and severe problems of a multi-faceted economic and political crisis to face but the potentially more serious difficulty of a longer term but accelerating erosion of key aspects of the post-war compromise. This conjuncture would soon be further compounded by the virtual elimination of any prospect for short term economic growth.

CHAPTER TEN

Labour and the Crisis of British Capitalism, 1974-79

In February 1974 a minority Labour government returned to office following a snap election called by the previous Conservative Prime Minister, Edward Heath. Labour took power in the context of an economic and political crisis of major proportions. While I have examined the underlying factors accounting for this crisis in the two previous chapters, for the present discussion I will designate the bare bones of this conjuncture as follows. First, the election had been called in the midst of the most severe period of industrial conflict since the General Strike of 1926. The precipitating cause of the premature election had been an overtime ban and eventual strike call by the National Union of Mineworkers (NUM) against the Conservative statutory pay policy. While ostensibly an industrial dispute the fact that it was directed against government policy, that it constituted the second national mining strike in two years (the 1972 strike being the first such official dispute since 1926), that the NUM employed notably militant tactics (especially flying and mass pickets) and that Communist and other left-wing unionists assumed leading roles in the conflict all combined to give the impression of political strike against the government. The election was thus dubbed with the slogan, "who rules the country" (the government or the unions).

Second, at least partly as a result of the excessive growth and then sudden contraction of the money supply under the Conservatives, a speculative bubble burst in the commercial property markets plunging

the financial sector into a panic of classic proportions. In December 1973 London and County Securities, a major property company, closed its doors setting off a run on deposits and a string of failures that spread throughout the secondary banking sector that had mushroomed in the late 1960s and early 1970s. The financial crisis continued unevenly over the next year at times even threatening the rather staid world of the City of London establishment and was only contained by the rescue "Lifeboat" operation conducted by the Bank of England and the major clearing banks. At its height in December 1974 something over £1,285m of support had been recycled to troubled institutions at a cost of at least £200m to the Treasury in its foregone share of profits from the rescue operations of the Bank of England. Despite this massive rescue operation a number of financial institutions went into receivership in the next two years including eight which had been supported by the Lifeboat Control Committee (BEQB, June 1978, p. 237, Gowland, pp. 95-6 and Channon, 1977, ch. 5).

Third, on the heels of the financial panic a liquidity squeeze penetrated the industrial and commercial sector. This more general if less spectacular crisis was not unrelated to the above-mentioned factors. On the one hand the financial troubles of the City massively undermined business confidence and precipitated a further drop in already depressed share prices. On the other industrial militancy had led to rapidly escalating wage costs, as workers sought to regain and then surpass real income levels lost during the period of statutory restraint. Industrial firms likewise faced further complications generated by Conservative and Labour anti-inflation policies. Threshold agreements tied to the Retail Price Index triggered massive rises in unit costs as the inflationary spiral accelerated in 1974. At the same time firms were effectively constrained from meeting those costs through equivalent price increases because of the statutory controls on the latter

introduced by Heath and carried over the Labour. In any case the immediate problems of liquidity caused by government policy only exacerbated two longer-term features of the "profits squeeze". Inflation appeared to increase at least the potential burden of company taxation primarily because of accounting practices which failed to discount the inflated values of stocks. These same practices had also concealed a long-term secular decline in pre-tax profitability for industrial and commercial firms, both points which I shall return to in the second section.

This then was the position that confronted Labour on its return to office after four years in opposition, industrial militancy and financial chaos, to put the matter none too bluntly. The economic context was further complicated by two essentially political factors. First, the new government of Harold Wilson did not have an overall majority in Parliament. While the Conservative opposition was at first too demoralized to take much advantage of Labour's minority position, the government's ability to manoeuvre was considerably hamstrung by its dependence on abstentions by some of the small parties, essentially the Liberals and the motley group of MPs from Northern Ireland. This relationship was formalised a few years later in the so-called Lib-Lab pact. However, initially at least it lent some credence to fears expressed in the press and elsewhere concerning the 'ungovernability' of the country. Second, over the period of opposition both the unions and the Labour Party organization had shifted considerably to the Left. The intricacies and impact of this development necessitate some detailed discussion. Following this I shall conclude this section with a brief look at the political aims of business as it had evolved over the same period.

I The Political Forces shaping Labour Policies

The resurgence of the Left had not led to a complete takeover of the Party apparatus. While the Parliamentary Left, mainly organized around the Tribune Group, received a considerable boost with the election of a number of radical MPs in 1974, the basic strength of the Left lay in the local constituency parties and in certain trade unions. From these bastions the radical wing of Labour had made certain inroads into the policy-making organs of the Party. In particular the Left had a position of dominance in the National Executive Committee (NEC) which drew up the Party programme and co-wrote the electoral manifesto with the Leader in Parliament (then Harold Wilson). It could also count on a narrow and rather uncertain majority at the annual Conference for at least some of its economic and industrial proposals through the secure support of the constituencies and the rather more important but at the same time fickle block votes of some major unions.¹ Thus the Left could muster the votes and the organizational muscle to exercise considerable influence over Labour's written programmes and manifestos. However, this did not extend to the day-to-day activities of the Parliamentary Party or the government which remained in the hands of the Centre and Right, a situation reinforced by the minority status of the incoming government.

As embodied in the NEC document adopted at the Annual Conference of 1973, Labour's Programme for Britain, 1973, a comprehensive left-wing blueprint offered detailed policy commitments for the future government. The most important planks for the purposes of the present analysis included the following. First, it called for new public enterprise in particular the nationalization of North Sea oil, natural mineral rights, the docks, aircraft and shipbuilding as well as the creation of a National Enterprise Board (NEB) around the base of existing public holdings in BP, Rolls Royce and Short Brothers. The NEB

was designed as a state holding company to facilitate national and regional planning (especially of investment) in part through the acquisition of controlling shares in "some twenty-five of our largest manufacturers (p. 34)." The second instrument for influencing corporate strategy was to be the introduction of a planning agreements system between the NEB and at least the 100 largest manufacturing firms. By way of a new industry act the government would secure the right to obtain information about medium-term company plans as well as to seek agreement with, issue instructions to, invest in or purchase outright or remove the directors of any firm encompassed by the planning agreements system (pp. 17-19). Third, the Programme called for the retention of the Price Commission and "the full weaponry of price controls" on the private sector with particular reference to the top 100 companies (p. 23). Fourth, it included proposals for strengthening workers' rights, not only for union recognition and membership, safety representatives and facilities for union officials but for some form of "industrial democracy" including the disclosure of company information as well as joint control through direct representation on a "supervisory board" at company level and "joint control committees" of managers and workers at that and lower levels (pp. 25-28). Fifth, the Programme announced the intention of reducing inequality through a progressive life-time wealth tax on the "descendents of this country's traditional 'ruling classes'", as well as a restructuring of income tax and the closure of loopholes to hit the better off and the return to a system of corporate taxation which would favour "the retention of company profits for reinvestment in plant and machinery, and not their distribution into the pockets of shareholders (pp. 36-39)." Finally, it proposed a wide range of measures in social and economic policy to both support the goals of greater equality and rising living standards and secure the maintenance of full employment. Underlying all of these specific commitments

was the more fundamental socialist theme, "to bring about a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families (p. 7)."

While the proposals of the NEC document were formally adopted at the Party Conference in 1973, the fate of some of them, in particular the "25 companies" shopping list was sealed at the same time by the vociferous objections of Harold Wilson.² Yet, the Manifesto for the election of February, 1974, included many specific promises drawn from the 1973 Programme including income and wealth tax reform, nationalization of all of the specific industries previously mentioned, the purchase of shares in pharmaceuticals, road haulage, construction and machine tools as well as the creation of the NEB. At the same time the "25 companies" proposal was dropped and the planning agreements system included with no mention of compulsory powers. More generally the Manifesto featured an agreement with the unions on a voluntary pay policy in return for the measures above as well as other planks in the areas of industrial relations reform and social policy. Christened the "social contract" this bargain with the Trades Union Congress (TUC) reflected the opinion widespread in the Party that any future incomes policy could only be maintained in the context of serious and deep reaching social and economic reform, a view more representative of the majority of MPs than the more radical proposals in the 1973 Programme.³

For present purposes the importance of this intra-party debate lies less in the watering down of the left-wing Programme, which was to be expected, than in the specific commitments extracted from the Prime Minister before the election. These, especially the social contract, did operate as a political constraint on the government, particularly during its first two years in power. The existence of a fairly integrated alternative strategy also offers a litmus test of the strength of the Left and the TUC, both of which remained broadly committed to

the Programme throughout the period of the government. The fate of the NEB and the planning agreements system, both of which received a (rather ambiguous) endorsement in the Manifesto, were particularly indicative of the trajectory of the government. As these became identified with the Cabinet position of the leading left-wing MP, Tony Benn, his personal career from his appointment as Secretary of State for Industry assumes a wider significance.

On the other side of the socio-economic fence Labour was on the receiving end of a set of political forces pushing in a rather different direction. As pointed out in Chapters 8 and 9 relations between the industrial and financial sectors were decidedly tetchy as a result of the activities in financial and property markets over the previous few years. The interplay of the perspectives and interests of the two main fractions of British business added another level of complexity to the influences on the government. While both industrial and banking capital were united in their total opposition to the economic proposals of the 1973 Programme, many industrialists expressed criticism of the City's role in investment finance and more generally the "distant attitude" of the City regarding industrial needs, particularly in the wake of the boom and bust in the property and secondary banking markets in the early 1970s. Large industry certainly did not want a massive extension of public ownership or statutory controls, but important sections of it did call for a reorientation of the capital markets towards industrial needs for rationalisation and restructuring.

Industry's peak association, the CBI, roundly condemned the industrial proposals of the 1973 Programme. Complaining that British industry was "already subject to severe legal and administrative constraints," it argued that all companies needed "maximum freedom to make full use of their immense practical experience of market conditions (CBI, 1974b)." It likewise supported the voluntary framework of government-industry consultation the

tripartite National Economic Development Council (NEDC), the Economic Development Committees (EDCs) and the Regional Economic Planning Councils established in the 1960s. Consequently in the CBI view the 1973 Programme would overturn the mixed economy and "should be resisted". More particularly it noted with approval the French system in which firms might agree with the government on plans for investment, production, employment or the location of plant in return for financial assistance. However,

there (was) no basis in recent British experience for a rigid "planning agreements" system on the line of the proposals in Labour's Programme 1973, with the whole range of individual companies' activities subjected to state control, backed by legal sanctions (CBI, 1974a, p. 38).

Thus, while accepting that private capitalism was compatible with nationalized industry, so long as the latter was "free to respond to market 'signals'", the CBI resolutely opposed any significant extension or public ownership or the assumption by the state of any statutory controls over the private sector.

Lest it be thought that industrial capital struck a wholly negative stance with regard to state intervention in the private sector and the need for change in the methods of investment finance, one should recall the testimony of various industrialists to the House of Commons Expenditure Committee Sub-Committee on Trade and Industry a few years' earlier (Expenditure Committee, Sixth Report, Session 1971-72, and Chapter 9). Those hearings had indicated considerable support especially amongst large industrialists for a flexible approach to industrial policy, including ad hoc intervention when necessary and some form of state- or mixed-funded holding company to fill the gaps in the capital market and, most probably, prod the City into a more effective orientation towards industrial needs. The CBI as well as the TUC had called for a massive increase in the proportion of the national product going to investment. Its difference from the unions was that industry wanted funds made available primarily

through more traditional government measures, namely relief provisions on corporation tax for stock appreciation and the relaxation of the price code, and not through directed investment funnelled through a state-controlled institution. More generally the CBI wanted stability in government policies and "agreement" on "the basic long-term objectives for Industry (CBI, 1974b)." At the same time it was equally concerned to defend the role of large firms and especially multinationals in the British economy and preserve existing cross-national freedom of movement of capital and goods (CBI, 1974a, pp. 16-17). At the point of Labour's return to power therefore the CBI and major industrialists showed a willingness to work within the existing framework of voluntaristic corporatism and ad hoc intervention. What they would not accept were proposals from the Left that would bend that framework into a radically different shape. Various policy objectives, eg: improving investment, productivity and profitability, assumed an equal importance with reducing the rate of inflation. More surprisingly the CBI did not initially oppose the ending of statutory wage restraint despite the continuation of price controls. In the words of its Economic Director at the time this was explained by the fact that in the wake of the miners' strike and the three-day week:

confrontation policies -- which seemed to include incomes policy -- were for the time at least unpopular. Furthermore many employers sought an opportunity to restore pay differentials and remove pay anomalies which had arisen under incomes policy (Glynn, 1978, p. 32).

However, CBI leadership was already under some pressure from harder-line members as a result of the Director-General's critical remarks about the Conservative Industrial Relations Act on the eve of the election (GKN suspended its membership for a time) (V. Keegan in The Guardian, 16 May, 1974). Over the next few years such pressures from the "New Right" within industry shifted the CBI towards an increasingly intransigent stance over a wide range of economic and industrial issues (Grant, 1981).

The response of the mainstream of banking capital to even the rather restrained criticism of major industrialists was predictably negative. Over the first two years of the Labour government the City essentially dug in and held a defensive position. An attempt by the Governor of the Bank of England to ward off such criticism of the City's distance from industry through the establishment of a working party on industrial efficiency fell on stony ground. This working group later took form as the Institutional Shareholders' Committee, but the whole project was eventually scuttled by the refusal of the Committee of London Clearing Banks or the Accepting Houses Committee to take part (BEQB, 1972, pp. 178-179 & 515, Wilson Committee, First Stage Evidence, Vol. 5, pp. 224-6 & 258 and Moran, 1981, pp. 391-2). A second effort on the part of the new Governor, Gordon Richardson, proved slightly more fruitful. This involved the refurbishing of the City Liaison Committee, originally established in 1965 to advise the City's representative on the NEDC. As announced in May, 1974, the Bank would sponsor and service a number of new specialist committees co-ordinated by the CLC under the direction of the Governor (The Times, 30 May, 1974, p. 19). These included a working party on public relations under Eric Faulkener, Chairman of Lloyds Bank, a City/EEC Liaison Group under W. P. Cook, Advisor to the Bank of England, a City Taxation Committee under Philip Shelbourne, Chairman of Samuel Montagu, a Capital Markets Committee under I. J. Fraser, Deputy Chairman of Lazards, a Company Law Committee under Sir Henry Fisher, Director of Shroder Wagg, and a City Telecommunications Committee under William Clarke, Director of the Committee on Invisible Exports (Investors Chronicle, 31 May, 1974, pp. 1026-7 and The Banker, August, 1974, pp. 858-9). The impetus for the greater formalisation of the City's links with government came partly from entry into the EEC, but other considerations included the falling out with the Heath government, the need to respond to industrial criticism and Labour Party proposals for the City, reform of the securities market

and changes in company law (*ibid.*). More generally in the wake of the financial crisis there was a call for a better public relations effort and a concerted campaign to defend financial interests, especially given the view expressed in The Banker that:

The City's time-honoured ways of dealing with Government are no longer in themselves enough: the quiet chat at the club, the scribbled note to the Head of the Civil Service or to the Prime Minister, the word with the Gov'nor for onward delivery - these were the ways of gentlemen and so they remain. The real business will probably continue to be done on that basis - and it makes little difference whether there is a Labour or Conservative government in power. But now the City, and particularly the Bank of England, feel that they should be seen to be doing more: public relations unfortunately matter (*ibid.*).

The appeal for a unified "Voice for the City" received considerable support in the financial press over the next year or so, as well as from its MP (*ibid.* and Investors Chronicle, 29 November, 1974, editorial, 6 December, 1974, p. 920, and May 30, 1974). Yet, the City Liaison Committee retained a fairly low profile over the succeeding years, not even submitting evidence to the Wilson Committee (see below). The answer to this puzzle appears to be in part the resistance amongst the different branches of finance to any powerful central committee (Moran, 1981). Thus, in the words of Richard Lloyd, Chief Executive of William and Glyn's Bank, "What we need are good, well-staffed trade associations, not an overall City body (except for invisibles and for general liaison with the NEDC on which I am now a City representative) (The Banker, Jan., 1974, p. 24)." Similarly, Michael Verey, Chairman of Schroders, expressed scepticism whether even the Governor could effectively represent the diversity encompassed by the Square Mile and consequently doubted strongly if it was "either practical or wise to try to find this Angel Gabriel (The Bankers Magazine, Oct., 1975, p. 10)." Rather, "each group should have spokesmen well qualified to fight their own corner and to speak authoritatively both to the public and to government regarding their particular area of business and of course, when

suitable, join together with others on common problems" (ibid.).

Several other considerations evidently played a part in this reluctance to formalise a peak association for the financial sector. First, the City wanted to avoid incorporation into the CBI, an aim which the latter had held to no effect since the publication of the Devlin Report on industrial and commercial representation of 1972 (esp. Pt. I). Second, various financiers voiced scepticism as to whether a better PR effort would make much difference in any case (The Bankers Magazine, Oct. 1975, pp. 8-10). Finally, while some might not have agreed totally with Ronald Grierson, Director of Panmure Gordon, in his rather blunt characterisation of the City's approach, "Cet animal est très méchant, quand on l'attaque il se défend" (ibid., p. 10), "they could no doubt appreciate his doubts about a general, co-ordinated defence strategy. As he went on to explain:

My chief fear is that an attempt, however well meant, to project the City as a whole could all too easily end up by providing fresh ammunition to its detractors. The mere fact of emphasising the City's bigness ... could turn out to be a boomerang: worse still it could furnish an excuse to those in Whitehall who are trying to foist a new bureaucratic strait-jacket on the City's multifarious and flexible roles (ibid.).

Finally, as a response to criticisms of the "arm's length" relationship between institutional shareholders and industry, an initiative on the part of the industrial advisor of the Bank of England, Sir Henry Benson, led to a working party composed of the Association of Investment Trust Companies, the British Insurance Association, Finance for Industry (FFI), the Life Assurance Associations, the National Association of Pension Funds and the Unit Trust Association. In its report of October, 1975, the working party proposed the creation of Equity Capital for Industry (ECI). This was to be a joint venture funded by the major institutional investors to meet the external financial needs of manufacturing firms with a market capitalisation in the range of £1m to

£20m (Wilson Committee, Vol. 4, pp. 121-5). The notion behind the formation of ECI was the provision of equity financing for small-to-medium sized companies which had long-term prospects but current financial problems either because they were fully geared or for technical reasons. In this sense its role was envisaged as strictly supplementary to existing markets and as complementary to FFI, which offered loan finance to similar classes of firms (*ibid.*).

Although this project had the active support of the Bank of England, it provoked a storm of negative reaction from a number of life insurance companies as well as other financial institutions including the accepting houses and the clearing banks (*ibid.*, Vol. 5, pp. 88 & 196 and Minns, 1980, pp. 87-8). This dismissive response stemmed in part from the expectation of no immediate return on the funds invested as well as fears of competition with existing institutions like FFI (The Banker, Feb. 1977, p. 80). In addition there was scepticism as regards the extent of the "equity gap" that ECI purported to fill as well as doubts concerning the implications of its original belief that, "institutional investors might in particular cases play a more positive role in the affairs of the company in which they invest, and they might consider ECI to be a suitable instrument for collective action (Wilson Committee, Vol. 4, p. 125)."

In other words it was precisely the innovative aspects of the ECI proposal as against normal financial practices that brought down the weight of City opinion against it. Yet, many institutions decided in the end of "play ball" with the new venture in order to forestall moves towards the political direction of investment (Minns, 1980, pp. 87-8). At any rate the equity bank, which was widely regarded along with the revamped FFI as the City's answer to the NEE, had an inauspicious beginning. Although originally targeted for £500m its initial capital issue reached only £41m in May, 1976. This was despite the fact that

ECI's terms of reference had been considerably whittled down, that it would adopt a passive role and rely on merchant banks and City accountants for referrals and assessments (The Banker, December 1976, p. 1465, and Minns, *op. cit.*). By the time ECI opened for business in 1977 the most that could be said (as with the Bank's other brainchild, the ISC) was that this, if it did act as a bridge between institutional investors and industrial management, was an extremely narrow and shaky one. The view that its activities would be marginal to the concerns of either side of "proprietorial gap" was vindicated over the next few years, a point I shall return to in the final section of this chapter.

In general then the attitude of the City towards Labour's economic and industrial programme initially was one of fairly unallayed hostility. As regards the NEB the financial institutions were initially opposed to even the sort of institution favoured by large industry, although this view changed as the fears about the scope and power of the state holding company diminished. Naturally enough any notion of planning agreements was a total anathema to the City, but its opposition to even a programme of voluntaristic, tripartite concertation went considerably further than that of industry. The only concession to the CBI strategy for deflecting the programme of the Labour Left was the agreement to form a fairly loose financial working party under the *egis* of the NEDC (Bankers Magazine, Oct., 1975, p. 9 and Lloyd above). What the City did not want was any form of new regulation which would limit its status as an "offshore island" or even the formation of an EDC for finance as that would entail trade union representation from within the banking system. On questions of the overall economic approach what is notable is the focus on inflation and the growing concentration on money supply figures as the sole explanation for the former, effectively dating from the Barber boom and subsequent bust in early 1974 (e.g. The Banker, Aug. 1974, p. 858, and Nov. 1974, p. 1288). This rapid conversion to monetarism was less true of the Bank of England. As early as April, 1972,

the Governor had begun to stress "the fundamental importance of the inflation problem (BEQB, 1972, p. 231)." Yet, for the next few years there remained a considerable ambiguity at least in his public statements as to how best to achieve monetary stability. The old remedy of treating it as a problem of excess demand seemed no longer applicable, whilst the Bank's highly reluctant acceptance of floating exchange rates removed "the discipline of a fixed parity (ibid., pp. 226-9)." Control of the money supply began to emerge as an important aspect of the Bank's counter-inflation programme, but only in tandem with other measures, in particular some form of incomes policy, e.g. the speech to the Lord Mayor's dinner in October, 1974 (BEQB, 1974, p. 436). A couple of years would pass before the Governor too jumped aboard the monetarist bandwagon.

These then were the main political forces and their divergent positions on the issue of the role of the state in investment finance and industrial policy as Labour returned to power in 1974: first, the unions and the Labour Left as represented on the NEC advocating a large extension of public ownership, a dynamic and well-funded NEB and the provision of state aid to the private sector through direct grants linked to a system of compulsory planning agreements; second, industrial capital, organized most publicly through the CBI, important sections of which favoured a much more limited version of a para-state development bank and a revival of the tripartite "planning" discussions first introduced in the 1960s but favouring a reduction in corporate taxation over any system of state grants or loans; third, the City along with its fellow travellers in the Bank of England and the Treasury which were overtly hostile to the first approach and at least very cautious as regards the second especially as regards the extension of tripartism to the financial sector itself; and finally the government itself which leaned towards the industrialists' viewpoint but at the same time had to win the unions over to some form of wage restraint. On the broader questions

of economic policy the positions were crudely as follows: for the unions a priority for full employment with control of inflation left to the price code; for the CBI initially a balance of aims with a rapidly growing concern about profitability and inflation leading to demands for cuts in taxation and public spending as well as a hesitant commitment to monetary restraint; and for the City an emphasis on reducing inflation and the PSBR within a tight monetarist framework. It would not be long before the deterioration of the economy added another set of actors mainly on the side of finance, namely the IMF. At this point we shall examine the unfolding and the resolution of these conflicting forces as reflected in the development of the economic and industrial policies of the Labour government.

II Labour and the Crisis of the British Economy: The Genesis and Limits of the "Industrial Strategy".

Fiscal and Monetary Policies

It is not my intention here to discuss fiscal and monetary policies at any great length. However, since a central feature of the present argument is that the industrial strategy as it emerged was constrained and ultimately gutted by political and economic forces impinging on these areas of policy-formation, it is necessary to highlight a few salient features of the broader economic path of the government. In brief the first two years of the government proved particularly important, as the mode of resolution of the industrial and financial crises largely established the framework of Labour's policies for the rest of its term of office.

Labour's first year was dominated on the one hand by the attempt to work out a new concordat with the unions in order to secure a voluntary incomes policy and on the other by the need to restore industrial and financial confidence. At first, however, the former took precedence, as the government had to fore-stall the tide of industrial militancy bequeathed by its predecessor. The miners were quickly bought off with the help of a Pay Board report which recommended their treatment as a "special case" and the TUC's verbal commitment that they would not use this settlement as a justification for higher wage claims. Within a week the miners' strike was over and the country back on a full working week. The first budget of 26 March, 1974, similarly made substantial concessions to the unions at least in terms of its redistributive consequences. However, the overall macro-economic impact of the budget leaned in a rather different direction. For the taxation increases totalled nearly £1,400m as against a growth in expenditure of some £700m. Together with a £900m reduction in the subsidies to nationalized industries Healey was aiming at "a massive reduction in the public sector's borrowing requirement, a reduction of about

£1,500m compared with 1973-74" (Hansard, 26 March 1974, col. 294). In any case the next "mini-budget" of 22 July at least momentarily reversed the deflationary impact of the first, erasing the estimated demand effect of the March budget and adding £340m to the public sector borrowing requirement (PSBR), mainly through lowering VAT to eight per cent, increasing housing subsidies and doubling the Regional Employment Premium paid to employers on a per capita basis for workers in depressed areas. Ostensibly these measures were justified as part of the anti-inflation campaign, but they hardly tackled the real problem at this point, the rapid rise in wage increases fuelled by the threshold payments system.

On November 12th, 1974, Denis Healey announced his third budget in less than a year. The speech confirmed that the government's strategy towards the deepening liquidity crisis of the corporate sector would center on concessions in the taxation of company profits and relaxation of the statutory price controls which were then the main plank of its counter-inflation policy. On the eve of the budget the Confederation of British Industry (CBI) had published one of its gloomiest business surveys ever, forecasting "a fall in production over the coming months with depressed corporate profits and the liquidity situation playing a major role in the deterioration" (Financial Times, 12 Nov., 1974). Healey responded to this plea with a financial pill worth in his own estimation some £1,600m, half through deferment of taxation on stock appreciation and half through easing the price code. This was considerably less than the £3,000m demanded by the CBI, but the latter none the less welcomed it as "the biggest financial concession to industry ever" (CBI, Annual Report, 1975, p. 7).

Of course, the fact that the Chancellor had to publicly state Labour's commitment to a mixed economy and the need for profits is in itself indicative of the extent of industrial disquiet. If these financial favours were not enough to restore business confidence, the rest of the budget no doubt helped. For Healey not only gave priority to maintaining (or at this point reviving)

a profitable private sector, he also gave other indications that Labour would not pursue further the interventionist road mapped out during the Party's term in opposition, rather the reverse. From that point even those aspects of statutory regulation inherited from the previous Conservative government, such as the price code, would be rolled back and eventually, when the time was ripe, abandoned. Instead of involving itself on a compulsory basis in the internal affairs of private firms, as advocated by the left through the so-called planning agreements system, the government would rely on more acceptable (for business) fiscal instruments, leaving decisions about pricing and investment in private hands.

Healey reiterated this trajectory as regards investment by announcing in the same breath that the Bank of England was issuing a qualitative guidance to banks and finance houses reinforcing the priority given to industrial borrowers. He similarly confirmed that the Bank of England and the London and Scottish clearing banks were expanding the facilities of their recently redecorated investment bank, Finance for Industry (FFI), to make available up to £1,000m in "medium-term funds for productive investment at commercial rates by British industry" (Hansard, 12 Nov., 1974, col. 267). This amount was coincidentally identical with the initial funding proposed for the state holding company, the National Enterprise Board (NEB), one of the key institutions on the left-wing programme for boosting investment and extending government control over the private economy. The move was also widely seen as an attempt, which proved successful, to ward off a proposal from Harold Lever, Chancellor of the Duchy of Lancaster, for a medium-term lending facility, the so-called "Lever Bank" (The Times, 10 Oct., 1974, pp.21 & 22; and The Banker, Dec., 1976, p.1465). Lever now withdrew his support for a new type of investment bank since in his view "the expansion of Finance for Industry announced by my right hon. Friend provides exactly the agency I was advocating long before the present Government took office" (Hansard, 14 Nov., 1974, col. 606).

The Chancellor did seek to reassure the left that this action would not "pre-empt decisions the Government may take to establish new facilities for financial companies on different terms in the context of its proposals for the regeneration of British industry" (*ibid.*). However, the timing of this announcement (before the actual creation of the NEB) and its context in terms of the general financial concessions to business indicated at the very least that this bankers' bank would exist as an alternative to state involvement or shareholding for financially pressed firms. It likewise signalled (albeit implicitly) that the financing and powers of the NEB would be rather less than some of its proponents were advocating.

The package of measures described above constitutes a key instance of the present study. On the face of it this one budget may not seem particularly significant. After all the amounts involved were not especially large from the point of view of the British exchequer, although they were relatively as regards the history of corporate taxation. Moreover, this was merely one among many such statements over the course of the Labour government, three in that year alone as pointed out above. However, this event did assume a greater significance in the course of the Labour governments of 1974-79, and thus in a crucial stage of what some observers now see as the unmaking of the post-war period of rapid economic growth, full employment and Keynesian economic policies (Shonfield, 1980 and Goldthorpe, 1981). For the budget had a symbolic importance greater than its specific financial effects, although these were real enough as I shall discuss below, in that it marked a shift away from state intervention as a solution for the worst crisis of British industry since the interwar depression. Moreover, that shift took place at a moment when the government was allegedly under the collective thumb of the unions and the left, i.e. the adherents of a programme of massive intervention to which the government was supposed to be committed. While the specific measures enacted at this point should be seen more as an

attempt to preserve the status quo than a breach in the post-war regime, they were at least the first loose threads which proved in a short space of time to be the unraveling of the latter.

The Chancellor's budget statements subsequent to November, 1974, repeated the same refrain. The statement of 15th April, 1975, again concentrated on reducing the balance of payments deficit and the PSBR. Healey singled out wage rate increases of 29% as the key constraint on economic policy through their effect on domestic consumption and thus imports as well as public spending. His response was to order more deflation through higher taxes and future reductions in public expenditure with the aim of reducing the PSBR by some £1,700m in the next year. Although he claimed to "absolutely reject the use of mass unemployment as an instrument of policy", the Chancellor had to admit that the ultimate effect of a restrictive budget in a time of world recession could only be a further rise to as much as one million or 4% of the labour force by the end of the year (Hansard, 15 April, 1975, col. 320). Once again only company taxation was exempted from the squeeze, as Healey renewed the reliefs introduced in November and extended them to unincorporated businesses as well as others that had not qualified for the earlier benefits. Even this austere budget could not, however, have much immediate impact on the inflationary spiral. By May the RPI had reached 25%, and wage rates were running at record levels. In this context the government managed to cajole the TUC into accepting the six pound per week pay limit in July to last for one year. This broke the back of the inflationary crisis, and price increases began to fall off from the peak in August of nearly 27%, albeit with painful slowness.

Unemployment, however, proved more intractable than the Chancellor had anticipated (at least publicly) reaching 1.2 million by the end of the year. Despite this and a considerable improvement in the balance of payments deficit the budget of April, 1976, made no attempt to reflate the economy. In this the

Chancellor took the rather unusual step of tying most income tax concessions to future pay rises as part of the campaign to renew the voluntary pay pact at the lower level of three per cent per annum. As in the two previous budget statements financial concessions were focussed on investment and company profits. Although Healey rejected any lowering of the basic rates of corporate tax he now allowed taxable profits to be calculated after deducting allowances for capital depreciation. This measure in aid of companies with large amounts of fixed assets was supplemented by an increase in industrial grants, together giving a small fillup to the company sector of some £100m over the next year (Hansard, 6 April, 1976, cols. 246-252). The budget also granted special consideration for small businesses, raising the maximum profit level for the preferential rate of corporation tax and broadening the exemptions from capital transfer tax (which had replaced the traditional estate duty in 1974). The latter effectively reduced by nearly half the tax payable by private businesses on the transfer of assets (Sunday Times, 11 April, 1976, p.61). The PSBR commitment precluded Healey from giving much more away in absolute financial terms, but the tone of this statement as before indicated that his toughness towards labour would be matched with kindness for capital. In the context of the cumulative fiscal impact of this and previous budgets and the world recessionary climate, the Chancellor's stated aim of increasing the rate of growth of GNP to over five per cent per year for the three years from 1977 could only appear as hopelessly optimistic (Hansard, 6 April, 1976, col. 240). The prospects for bringing unemployment down to the post-war norm were equally dim.

Up to this point Labour could at least claim some success for its policies as regards crisis management. It has stabilized the economic situation, diffused industrial conflict from the pitch of 1974, passed various pieces of significant reform in employment protection, sex discrimination and industrial

relations and at least maintained social provisions. However, for the rest of the year successive crises of confidence in both external and internal financial markets effectively derailed its medium-term programme of modest growth in public expenditure and the hope of economic recovery, as well as its attempt to hold down the rate of inflation through voluntary wage restraint. Sterling felt the pressure first as in March the exchange rate fell below \$2.00 for the first time ever. Even the restrictive budget in April did little to relieve the situation, and by early May a massive move of short-term capital out of sterling drove the exchange rate down to \$1.80. As the pound dipped still further towards \$1.70, the Chancellor attempted to back up the dwindling reserves of the Bank of England by negotiating a \$5.3b stand-by credit with a group of ten countries and the Bank of International Settlements (BIS). This facility stabilized the pound for a short time but only through the continuous support operations for the Bank of England in the foreign exchange markets and a consequent further run-down of reserves. By July 22nd the strain had proved too much, and under pressure from the U.S. government and the BIS, the Chancellor announced more cuts in planned public expenditure of some £1,000m. Coupled with a £1,000m increase in employers' National Insurance contributions these measures aimed to reduce the projected PSBR for 1977-78 from £10.5b to £9b (Hansard, 22 July, 1976, cols. 2010-20).

Yet, once again the relief proved short lived. From May through to September sales of government securities slumped as the financial markets engaged in a "gilt strike" against Labour's economic policy (The Economist, December 25, 1976, pp.72-3). In practice the Conservatives had ceded a considerable amount of leverage to financial markets with the introduction of Competition and Credit Control and floating exchange rates in the early 1970s (despite the renewal of the "corset" at the end of 1974). In these circumstances the monetarist ideology which had by now infected the City became a self-fulfilling prophecy: the

markets viewed the rate of monetary expansion and the budget deficit as excessive and refused to buy long-term stock unless interest rates went up. This the Chancellor was loathe to do since it would amount to an admission that the July measures had failed to restore financial confidence, so he had little choice but fund the PSBR through short-term borrowing thus increasing M_3 rapidly and leading to a situation of near panic (Keegan and Pennant-Rea, 1979, p.133 and Tomlinson, 1981b).

In a short space of time the markets forced the hand of the Chancellor. The Minimum Lending Rate was jacked up from its low point of 9% in March to 13% in September and a record 15% on October 7th.

What the domestic markets had started, the foreign exchange markets and the IMF were left to finish. Whilst the Chancellor had resisted pressure from the Treasury, the IMF and US Treasury for further cuts in public expenditure in the summer, sterling began to tumble downwards once again in September (Keegan & Pennant-Rea, 1979, pp.159-72 and Fay & Young, 1978). Even the dramatic hikes in MLR could not stem the tide, and by the time of the Labour Conference in the last week of September the government was in complete disarray. On Tuesday, September 28th when the pound had fallen 7½ cents in two days to \$1.64, the Chancellor turned back in panic from the airport, where he was due to fly off to the annual IMF meeting, to harangue the Party conference. On the same day the Prime Minister made in effect the formal announcement of the abandonment of Keynesianism.

The next day the government announced the application to the IMF to draw on the second main credit tranche of \$3.9b and a week later MLR was raised to a record 15%. Even these steps did not stop the flow immediately, and sterling slid down to a low point of nearly \$1.55 later in the month.

When the IMF team arrived on November 1st, it added considerable support to the monetarist minority within the Treasury which was advocating substantial cuts in public expenditure. Although the Prime Minister attempted to fight what he viewed as a conspiracy between US and UK treasury officials, Healey

was evidently won over to the hard-line approach (*ibid.*). In the meantime the Governor of the Bank of England announced in his speech to the Lord Mayor's banquet on 21 October his new-found belief in "a publicly-announced monetary target" of 12% for the current and something less for the next financial year (BEQB, 1976, p.454. He likewise justified the recent measures (the rise in interest rates and the call for special deposits) as demonstrating the determination:

to restrain the growth of bank lending to the private sector within the bounds set by the 12% target; and to secure adequate official sales of public sector debt to the general public, so as to neutralise the creation of liquidity arising from the public sector deficit and thereby also moderate the rate of monetary expansion (*ibid.*).

City opinion welcomed this change of heart. The November issue of The Banker drew an earlier parallel in its explanation of the crisis and the implied solution by way of

saluting those unreformed bankers in 1931 who thought that uncorrected budget deficits are the root of currency debasement; which is why in 1976, as in 1931, bankers responded to Britain's uncorrected budget deficit in the only way open to them: by selling pounds on the exchanges. Have the facts of life turned out not to be Keynesian after all? (The Banker, 1976, p.1203).

On December 15th as part of the conditions for the loan the Chancellor announced another round of cuts in public expenditure plans amounting to £1b for 1977-78 and £1.5b for 1978-79. The control of monetary growth likewise received a new emphasis with a limit on domestic credit expansion (DCE) set at £9b for the year up to April, 1977, and £7.7b for 1977-78. As a result the pound, which had remained edgy throughout November despite the IMF loan, finally stabilized at around the \$1.70 level. However, the price paid for financial peace was severe, as the measures implied a contraction in real public spending over the next two years and dashed any hopes of sustained economic recovery.

The next two years amounted to little more than a holding operation. The government managed to keep public expenditure and the PSBR well within the

targets agreed with the IMF, mainly because the actual deficit for the crisis year 1976-77 turned out to be considerably lower than earlier projections. By the last year of the government public spending was some 4% in real terms below what it had been at the end of the first year (CEPR, April, 1981, p.27). The rather unexpected ease with which this was accomplished allowed the Chancellor to ease up somewhat on the fiscal squeeze. In the budget of March, 1977, he announced immediate concessions of £1,290m in personal taxation and promised further reductions of £960m upon the successful conclusion of the next round of the pay policy. However, by now the programme of voluntary restraint of wages was beginning to shred at the seams. The TUC was unable to agree to a further round of pay curbs apart from a general commitment to maintain a twelve month gap between settlements in any one industry. Still the reduction in public expenditure projections allowed Healey to implement some of the promised tax cuts in July. At the same time, given the absence of any firm agreement with the TUC the government moved towards the unilateral imposition of a 10% norm, although its means for enforcement were left exceedingly vague. Despite these measures the economy showed little signs of recovery in the first half of 1977, and Healey resorted to a further round of tax cuts as well as a small upward revision of public expenditure plans in October. These were calculated to cost something over £1,000m for the current financial year and £2,000m for the following, still leaving the PSBR target well within the figure agreed with the IMF.

By the end of the year the economy seemed to have turned the corner. Unemployment peaked in September at nearly 1.5m or 6% of the labour force, although it fell off only slightly thereafter. The balance of payments current account moved back into surplus in August for the first time since 1972, and more significantly the return of short-term capital pushed the total balance for official financing to a record surplus in the third quarter of the

year of some £2.6b. With a steady pound and growing reserves MLR was allowed to drift downward slowly but persistently to a low point of 5% in October. As the dollar depreciated official reserves reached a record sum of nearly \$21b in January, 1978, allowing the Chancellor to announce an early repayment of \$1b to the IMF. As a result of the low level of pay rises, a favourable change in the terms of trade and the slight appreciation of sterling, the RPI fell to single figures by the new year.

Industrial production remained depressed, however, and in the April, 1978 budget the Chancellor once again found cause for a mild fiscal stimulus of some £2,000m for the coming year. The reflationary steps of the past year finally began to take effect, and 1978 saw a modest consumer boom. This proved to be short-lived, however, as economic recovery brought with it the same set of problems that had beset the government in the first place. The current balance slipped back into the red in the first quarter of 1978, and sterling came under some pressure in March and April as short-term capital funds once again proved extremely volatile, forcing a series of hikes in MLR from 6½% in January to 10% in June. A shaky dollar and rising interest rates in the U.S. forced the government to raise the rate again in November to 12½% also largely in response to short-term capital movements. Retail prices likewise began to rise from mid-year as average earnings increased at an annual rate of 14% in the 1977-78 pay round. In the meantime the prospect for industrial capital was particularly bad, as the combination of a slightly appreciating exchange rate and rapidly rising labour costs meant a depreciation in U.K. competitiveness more or less to the position before the devaluation of the pound in 1976 as well as a downturn in real pre-tax profit rates.

It was the complete disintegration of the social contract and the revival of wage militancy that featured particularly strongly in the last few months of the government. The 12-month rule agreed with the TUC in 1977 at least managed

to delay wage increases, but from the spring of 1978 the latter began to accelerate rapidly. None the less, the government attempted to turn back the tide and impose an even tighter norm of 5%. In the white paper of July, Winning the Battle against Inflation, it hinted that this was just the first step towards the establishment of a longer-term framework. Despite decisive votes against any renewal of the pay policy at both the TUC and the Labour Party Conferences in the autumn, the government persisted in its unilateralist course, issuing confidential directives to local authorities and preparing sanctions against private firms that breached the norm. Against the advice of leading trade unionists and senior party politicians the Prime Minister, James Callaghan, decided to delay the election expected in the early autumn and tough out the revival of shop-floor militancy. This proved to be a fatal error, as the government was soon engulfed by a series of disruptive and very public strikes, later given the epitaph of the "winter of discontent". Workers at Ford were the first to break through the norm, winning a 17% increase despite the threat of government sanctions against the company. There followed prolonged disputes in transport with the tanker drivers, lorry drivers and train drivers, in the civil service and with low paid manual workers in the public sector. Combined with severe winter weather in January the strikes led to widespread shortages in the shops as well as potent and hardly popular symbols such as mounds of uncollected rubbish in the streets of London, hospitals turning away patients, etc. The press hardly helped as in particular the popular dailies engaged in what can only be called a campaign of near hysteria against the strikers. The Conservative opposition was hardly slow to seize this particular stick to beat the government, and the effect on Labour's standing in the country was nothing short of disastrous (Coates, 1980, Ch.2).

In February and March average earnings were running at 15% over the level of the year before, and in April the RPI returned to double figures. By the time

of the general election in May the balance of payments current account had deteriorated sharply, and unemployment was still stubbornly stuck at 1.3 million or 5.6% of the work force, more than double the rate at the start of Labour's office. Consequently, the government had little to show from its five years at the helm of economic management apart from a very modest growth in real disposable income. Moreover, the strike wave of 1979 starkly illustrated the breach between a government pursuing incomes policy whatever the consequences and the union rank and file attempting to recover lost real wages, marking an obvious parallel with the fates of previous governments both Conservative and Labour and undercutting the latter's claim of superior economic management through its special and co-operative relationship with the unions. However, the most severe cost was the virtual abandonment of full-employment as the central aim of government policy, although another year or two would pass before the full implications of this were realized.

Industrial Policy and Capital Formation

As noted above Labour's industrial programme had proved highly contentious even before the 1974 election. The appointment of Tony Benn as Secretary of State for Industry seemed to herald a radical break with the past Labour policy of fiscal inducement for investment and "voluntaristic planning." i.e. planning only in the sense of tripartite consultations between the representatives of the state, private industry and organized labour. In practice the industrial policy of the government fell back into this well-worn mould with more or less the same impact (or lack of it) on industrial regeneration. As described in the previous section fiscal inducement in fact played as great if not a greater role in Labour's policy towards private investment as in previous years. Government spokesmen repeated time and again their commitment to boost company profits and reassure industrial and financial confidence. I shall return to look at the consequences of this approach below, but for now I will briefly describe the fate of the two main planks of the so-called alternative industrial strategy, the NEB and the planning agreements system and attempt to draw out the logic of the approach actually pursued by the government.

Given the political differences within the Cabinet over the extent and nature of the state intervention required, it took some time to get the industrial programme on the statute books. However, the publication of the government white paper, The Regeneration of British Industry, in July, 1974, left little doubt that the Party's proposals would be emptied of their more radical content.⁴ The white paper confirmed that Labour would establish the NEB and that the latter would have powers to purchase share holdings in as well as make loans to private firms. There was no mention of compulsory purchase, however, and the financial objectives of the NEB were stated in the conventional terms of securing an "adequate return" on its investments. Much of the white paper was devoted to the discussion of planning agreements,

but here again the provisions of the document were much more in line with previous Labour policy than with the 1973 Programme. Instead of statutory powers to compel the major companies to sign such agreements, the latter would be strictly voluntary. Only the promise of public aid would be used as an inducement for companies to sign agreements with the government.

After further delays the Industry Bill outlining the role of the NEB and the planning agreements system was introduced into the House at the end of January, 1975. This Bill established the NEB with an initial funding of £700m to be raised to £1,000m at a future date with the consent of the Treasury. The Bill made no reference to any compulsory planning agreements, but it did include a long section on disclosure of information. This would allow ministers to require any company to provide information on a wide range of activities, including capital expenditure, disposal of assets, intended acquisitions, sales and exports, including estimates for future periods. These clauses positively alarmed the CBI, which had been previously assured by the apparently successful efforts of the Prime Minister to control the draughting of the Bill. Industrialists objected immediately to these provisions and maintained a campaign against them throughout the tortuous passage of the Bill through the House of Commons. In the end they were successful. An attempt by some left-wing MPs to introduce a compulsory purchase clause in March was quite simply rebuffed by the government. When the final version passed into law the clauses offensive to industry had been effectively watered down.⁵

In the meantime private capital dealt with the remaining thorn in its side, namely the position of Tony Benn at the Department of Industry. "From the late summer of 1974," in the words of the Prime Minister's Press Secretary, "the insistent whisper distilled from all (the Treasury's)

advice and alarm was that 'something' had to be done about Tony Benn, the Minister for Industry" (Haines, 1977, p. 31). The relationship between Benn and Wilson had in any case largely broken down during the increasingly public disputes over the white paper and the Industry Bill, but it was the issue of Britain's EEC membership that finally offered the Prime Minister the chance to clip the wings of his contentious Minister. The division within the Cabinet as well as the Party over the EEC essentially followed the left-right split on other issues, and Benn featured as a prominent anti-Marketeer in the campaign that led up to the referendum. In the end he was "not so much removed from the chess-board as castled" (ibid.) Within days of the two-thirds vote in favour of continued membership on June 6th, Wilson offered him a stark choice: exchange jobs with Eric Varley at the Department of Energy or leave the Cabinet. After some deliberation and the attempt to rally some support Benn decided his position was hopeless and chose the former course. In Varley the Prime Minister had picked wisely, for he was also anti-EEC and had good relations with the unions but was far more compliant and could be relied on to make the amendments to the Bill which Wilson needed to assuage the fears of the CBI. Benn's left-wing deputy, Eric Heffer, had in any case been sacked earlier in the year for his part in the EEC debate, so the radical rule of the industry roost was now effectively over.

When the NEB finally went into operation in early 1976, it was hardly a vehicle for increasing political control over investment flows or the major private corporations. Any doubts remaining in the City should have been put to rest by the appointments of Lord Ryder, formerly of Reed International, and (later Sir) Leslie Murphy, previously deputy chairman of Schroders (holding company for the merchant bank of the same name) to the two top posts. In an interview in February, 1976, Murphy clarified his view that the NEB would exist to fill gaps in existing capital and loan markets and not attempt to supplant them. He likewise emphasised the constraints on the NEB's operations: that it would attempt to secure a commercial return on its investments, run its subsidiaries including the

lame duck transfers along profitable lines, enjoy no special privileges over private sector firms, abide by the general rules of fair trading and the City Takeover Code and exercise considerably more managerial freedom than the nationalised industries (The Banker, Feb. 1976, pp. 148-50). The extent of that freedom was best brought home by a meeting in May, 1977 between Murphy, Ryder, Sir Peter Carey (Permanent Secretary at the Department of Industry), Sir Kenneth Keith (Chairman of Rolls Royce and a leading merchant banker) and Sir Arnold Weinstock (Managing Director of GEC). The topic for discussion was the proposed merger of Rolls Royce with GEC in which the latter would virtually take over managerial responsibilities from the NEB (Kellner and Crowther-Hunt, 1980, pp. 318-23). Although the deal did not go through, the tensions that resulted between the managements of Rolls Royce and the NEB laid the groundwork for the eventual bust up in November, 1979, when under the new government Rolls Royce was transferred to the Department of Industry and the entire board of the NEB resigned in protest. More significantly these discussions, which had important implications for the government's industrial strategy, apparently went ahead without the full knowledge or approval of the Cabinet or even the Secretary of State for Industry, Eric Varley (ibid. & p. 189, and Sampson, in The Observer, 18 Nov. 1979).

In any case most of the NEB's finances were effectively tied up in the two bankrupt firms transferred to its control, British Leyland and Rolls Royce. These alone accounted for nearly 90% of NEB shareholdings and by early 1978 had absorbed some 94% of NEB loans (Parr, 1979, p. 55). At the end of 1978 total NEB investments in BL and Rolls Royce amounted to £1,157m, while the rest of the portfolio accounted for only £118m (NEB, Annual Report 1978, p. 55). Moreover, despite its brief about supporting employment and promoting industrial democracy NEB controlled firms showed little compunction over engaging in rather ruthless pruning of jobs in the quest for profitability. At BL in particular a hard-line management received full government backing as it cut the work-force by nearly 33,000 in the four years from December, 1975, and successfully took on and more or less crushed

the powerful shop steward organization at its main plants.⁶ Nonetheless, within these rather narrow limits the NEB did play at least a limited initiating role in the area of new technology. It took a significant share in Britain's ailing computer firm, ICL, and played a major part in establishing new firms in micro-electronic hardware and software, mainly through INSAC, INMOS, NEXOS and LOGICA. Its greatest success story during the period of the Labour government was undoubtedly the rescue operation mounted for Ferranti's. This technologically advanced but financially troubled firm turned round rather quickly under NEB control and eventually produced a healthy profit and considerable capital gain for the parent company (Parr, 1979, and Wilson, 1979, pp. 149-51). In sum the NEB in practice bore a much stronger resemblance to the views discussed earlier of major industrialists of what was needed than to any of the proposals put forward by the unions or the Labour Left. Given the limited role, the leadership and the conventional approach to finance adopted by the Board, it is hardly surprising that the City ultimately accepted its operations as non-threatening, and that various financial institutions had engaged in joint operations with it by 1979 (*ibid.*).

As mentioned above the planning agreements system had already been emasculated both in Cabinet and in the passage of the Industry Bill through Parliament. Yet the government remained highly committed to some kind of voluntaristic programme. This crystallized in the issue of a government white paper, An Approach to Industrial Strategy, in November, 1975, following a meeting at Chequers of representatives of the government, the TUC and the CBI under the auspices of the National Economic Development Council (NEDC). This document still included the term "planning agreement discussions" but made it clear that these would be strictly voluntary and would in effect take place as part of the usual tripartite consultations in the industry-level Economic Development Committees (EDCs). Although the white paper went on at some length to distinguish the industrial strategy from Labour's earlier fiasco, the 1965 National Plan, it was essentially a low key version of the previous exercise. In the same plan of this document, by the end of the next summer

the government would present its medium-term projections to the NEDC, broken down to indicate the implications for each of 30 or so key industrial sectors. These projections would then form the remit for individual EDCs or ad hoc committees to be established where no EDC existed (later termed Sector Working Parties) for tripartite discussions. The results of these discussions would be returned to the Council for the use of the government in devising both its industrial and macro-economic policies. While the white paper was fairly anodyne in its wording and content, it did include some specific criticisms of the inadequacies of the City's capital markets. At any rate the continued suspicions of the CBI and the growing wariness of the TUC prevented either side from actually signing the document as a formal agreement, although both did at least go through the motions of offering verbal support. The reluctance of the CBI was less defensible in this case since the industrial strategy largely followed its own proposals for the extension of the existing tripartite system (CBI, Report, 1975, p. 13). On the other hand union fears that the exercise was little more than a minimal pay-off to secure compliance with a new phase of wage restraint (much as with the National Plan of 1965) proved well founded, as already in the spring of 1975 the joint efforts of the CBI and the government brought success in the form of the £6 pay limit (Glynn, 1978).

The planning agreements system as originally proposed was thus left by the wayside. Given the voluntaristic framework imposed by the Labour leadership and the total hostility of industry to any disclosure of information let alone anything more comprehensive, this was inevitable. The government only signed one so-called planning agreement with a private company, and this only came about because the American parent of Chrysler informed the government that current losses were forcing it to close down its UK operations. It would seem that from the somewhat cynical viewpoint of the firm, the agreement was simply a means to extract rather large sums of public money in the short term, some £162.5m in written off losses and

guaranteed loans over three years. In July, 1978, having used up all but £7.5m of that initial financial commitment, Chrysler simply told the government that it was accepting a take-over bid from Peugeot-Citroen, a move to which the Secretary of State for Industry had little choice but agree.

Yet, if the planning agreements system played virtually no role except as a rather sorry joke, the government nevertheless placed great emphasis on the industrial strategy. The Chancellor's budget statements and economic situation reports consistently mentioned the significance of progress in the strategy as the key to industrial regeneration. What was actually accomplished is difficult to determine. By the end of Labour's term of office EDCs or SWPs covered some 41 industrial groups, and the vast majority of these did report back to the NEDC on an annual basis. These reports typically set some sort of objective for the future, usually in terms of import penetration and home market share, but there was little detailed discussion of these objectives and no attempt to create new instruments to meet them on the part of the government. In fact since the actual thrust of Labour's fiscal and monetary policy cut in the opposite direction to growth of investment and output, it hardly seemed likely that any targets however modest in these areas would be achieved. Generally the SWPs and EDCs acted much as trade associations, which is hardly surprising since management representatives tended to come from the latter rather than specific individual companies. The discussions and recommendations of the SWPs consequently centred on concerns such as promoting better maker/user relations, export performance, product development, production organization and efficiency.

One area of major weakness in the industrial strategy was simply the lack of central co-ordination (Grant, 1980b). Despite the urgency of the 1975 white paper the first general report only appeared in January, 1978. Even at this late date the objectives were stated only in the vaguest of terms,

e.g. 3½% annual growth over the "next few years", with no attempt to break down the implications for particular sectors (Memorandum by the Chancellor the Exchequer and the Secretary of State for Industry, 1978, p. 7). In addition by this late date all of the SWPs together only covered some 40% of manufacturing output and only a portion of these submitted some sort of estimated objectives for output, manpower and imports.

Even at the sectoral level co-ordination in the sense of communication between the different aspects of the industrial policy apparatus seems to have been non-existent. For example the Electronic Components SWP complained when the NEB created its microelectronics firm, INMOS, without any prior consultation, indicating a lower degree of co-operation than the SWP could expect even from private companies (Grant, 1980b, p. 8). At the same time it seems likely that the SWPs did have some influence on government activity through the Industrial Policy Group in the Treasury or the Department of Industry. This was particularly the case in the drawing up of Selective Investment Schemes and other projects requiring state aid (*ibid.*, pp. 7-12). Similarly communications from SWPs no doubt added weight to CBI recommendations and re-inforced industrial priorities across a range of industrial and economic policies from taxation, manpower training and higher education, the use of Industrial Development Certificates, modifications of the facilities offered by the Export Credits Guarantee Department and the creation of a Market Entry Guarantee Scheme.⁷ However, the concern expressed by seven SWPs, especially the Machine Tools EDC, towards the end of the government about the effects of the appreciation of the pound on their export prospects, received no positive response from the Chancellor, mainly because it cut right against his budgetary and counter-inflation policies.⁸

The other fundamental weakness of the industrial strategy was the absence of any means of implementing recommendations through the tri-partite process (Grant, 1980b). As argued above this was largely the

result of concessions to industrialists who feared any extension of public control over company decision-making. By 1979, three years into the industrial strategy, the annual analysis indicated that many firms seemed unaware or unconcerned about its existence. Consequently, the analysis dwelt on the need for a "communications programme" in order to "increase awareness of the Industrial Strategy and of the work of the SWPs, especially among middle management and shop floor workers".⁹ The "communications problem" was particularly marked amongst trade unionists both at the national executive and shop steward levels, for the experience had left the latter with a somewhat jaundiced view of the potential of voluntaristic industrial planning. A TUC conference of union representatives on SWPs in October, 1977, indicated at that early date the frustrations and fears on the labour side of tripartite planning. One after another the union representatives complained of the unwillingness of management to divulge any information about future programmes of exports, manning, output or investment, particularly at company level. The tenor of discussions at the SWPs can be judged by the complaint of one member of the Chemicals EDC that "most of the central threads of the TUC documents here on Government industrial strategy have not been accepted as the central theme for our discussions at EDC level, nor at Sector Working Party level" (TUC, 1977, p. 21). Instead of planning the growth of employment in this advanced and relatively buoyant sector of British industry, "the employers consistently press for fewer jobs" (ibid.). Others noted that the exercise hardly appeared to have any impact on increasing investment or employment, rather the future promised only further reductions in both areas vital to the unions. In the words of one unionist who brought out the contradiction between the supposed role of the industrial strategy and the actual impact of Labour's economic programme, "our work is being frustrated, and will continue to be frustrated, unless the TUC demand for an expansionist economic policy is, in kind, acted on by the Government" (ibid., p. 37).

The obvious conclusion for many of those present was best expressed by Jack Jones of the Transport and General Workers' Union, namely that, "to introduce planning agreements is the number one consideration, and without planning agreements at company level, frankly the Sector Working Parties will become talking shops" (ibid., p. 31). In this context even one right-wing unionist basically sympathetic to the industrial strategy could warn that owing to the lack of publicity about the trade union role:

the Neddies (EDCs), and the Sector Working Parties, are being seen by the rank and file as instruments for knocking them into shape. We are seen as being policemen pursuing policies and trying to enforce policies, on the shop floor that they know nothing about and have not been briefed for (ibid., p. 25).

The call for compulsory planning agreements and detailed disclosure of information at the company level were of course non-starters as far as the CBI and the government were concerned. The narrow limits of the industrial strategy would not be breached by Labour for the rest of its term. Consequently, while the TUC continued to give lip service to the programme in its public statements, there is little doubt that it was increasingly frustrated by the lack of significant progress towards anything like an expansionary programme or genuine tripartite planning. The union rank-and-file meanwhile returned to its traditional mode for defending its interests, namely industrial action, whatever the consequences for the government.

In sum the industrial strategy as implemented followed the parameters set down by the CBI at the start of the government, more or less the same as occurred with the NEB. Fiscal concessions formed the foundation of Labour's approach to industrial regeneration, the effects and consequences of which I shall return to below. However, on top of this the government continued and developed a programme of fairly massive state aid to those firms and sectors for which even the virtual elimination of the tax burden would not guarantee survival.

This aid came largely in the form of grants and low-interest or interest-free loans by way of Regional Development Grants, Investment Grants and the provisions in Sections 7 and 8 of the Industry Act 1972 and the building of government factories through the Local Employment Act 1972. Assistance from these sources totalled some £4851m over the life of the government, dwarfing the funds channelled through the NEB (see Table 10.1). Furthermore, it was not used to increase the leverage of the government in industrial planning as earlier envisaged. Rather, the administration of these funds in any detailed sense was left largely in the hands of the firms or sectors involved within the general guidelines set down by the various statutes.¹⁰ In the provision of state aid it was industry's view of the proper form of accountability that prevailed, not that of the unions or the Labour Left.

Finally it should be noted that the financial sector was largely left out of the industrial strategy, although two fairly minimal concessions were made to the critics of the role of the City in the provision of investment funds. First, the government set up the Committee to Review the Functioning of Financial Institutions under Harold Wilson. The Committee met throughout the second half of Labour's term but did not complete its final report until after the electoral defeat in 1979. As such the Committee could not be expected to have any significant impact on government policy, but there exists the strong suspicion that the main intention behind its creation was really to deflect trade union demands for greater state direction over financial institutions.¹¹ The same applies to the second institutional innovation, namely the establishment of the Committee on Finance for Investment under the auspices of the NEDC. This was formed in January, 1976, under the Chairmanship of Lord Roll, also Chairman of the Merchant Bank, S. G. Warburg, with fairly wide terms of reference:

To consider and keep under review problems connected with the demand for funds for investment by manufacturing industry, the

mobilisation of the finance required, the channels through which it moves and the related roles of financial institutions; and to report on these matters as appropriate to the NEDC (Wilson Committee, Vol. 8, p. 74).

As the City had long resisted the notion of an EDC for the financial sector, the mere creation of the Committee was something of a concession. Indeed, it appears to have had some impact on the industrial strategy as by May, 1978, some nine SWPs included a clearing banker on their staffs for the first time. Its work in its first two years covered such topics as financial aspects of the industrial strategy, bonding problems for export firms with large contracts, the implications of deferred tax liability for external finance and financial problems of small and medium-sized firms. As such the Committee at least made some headway towards bringing financial representatives face-to-face with industrial problems. However, one should not make too much of this since the other side of its work was deflating if not outright rejecting some pet schemes of the TUC, e.g. the notion of a contracyclical reserve fund in the Swedish mould to supplement existing capital allowances and the modification of credit facilities to encourage exports and discourage imports in line with French practice (*ibid.*, pp. 71-97). Similarly, in 1979 several SWPs in high technology areas were still concerned about the need for new sources of finance given that the "banks are not a suitable source for the kind of risk capital needed by small companies wishing to expand in these sectors", a matter which was simply referred to the Roll Committee for its consideration.¹² A year later with a new government in power the Roll Committee was still admitting "the need for the financial community to be made more aware of the work of the EDCs and SWPs and their objectives (NEDC, Jan. 1980, p. 15). Here again the limits on voluntaristic planning were determined by what business representatives were willing to consider. In the case of finance this fell far short of any idea of greater state involvement or direction.

Perhaps the simplest assessment of the industrial strategy is that "it seems to have been more successful in giving industry's needs a higher priority within government than in influencing private industry (Grant, 1980b, p. 2)." As discussed above the top industrial priority was the reduction in corporation tax, and in financial terms it was the concessions on stock relief of November, 1974, that constituted the heart of the industrial programme. As pointed out in Chapter Eight these measures more or less compensated for the decline in pre-tax profitability, to the extent that by 1977 as the Treasury and the Department of Industry admitted, "substantially the whole of the profits which a manufacturing company continues to re-invest on its business, whether by way of stock or plant, are effectively relieved from corporation tax (Wilson Committee, Vol. 1, p. 21)." The result was a clear decline in the level of the tax in real terms by 1979 as compared with a decade earlier (see Table 10.2). The level even fell in current terms in both 1975 and 1976, years of rapid inflation when total company income rose by some £6.6b. As a percentage of company income the fall was even more dramatic. Some idea of what could have happened had Labour not granted stock relief can be gauged from Table 10.3. As a percentage of profits net of stock appreciation corporation tax shot up to nearly 29% in 1974, dropping to 13.4% by 1977. By the latter date according to one estimate most major corporations were paying little if any corporation tax (see Table 10.4).

Labour's policies towards the corporate sector thus apparently managed to maintain the level of post-tax profitability of the early 1970s despite the slide in pre-tax rates of return. In this course it largely continued the approach of previous governments whether Labour or Tory since the mid-1960s albeit on a considerably greater scale. However, even this did not win the sustained support of industrial capital. The CBI became increasingly alarmed about the deterioration in pre-tax rates of return, especially when they began

to turn down once again in the wage explosion of 1979. Industry's attitudes hardened over the course of the government, as the CBI repeatedly demanded further concessions in taxation (especially the National Insurance Surcharge) and further cutbacks in public expenditure. The continued concern over wage costs and productivity levels probably explains the at least partial conversion to "monetarism" over these years (CBI, 1976 & 1978).

At the same time the government's programme of fiscal concessions could hardly be counted a success in terms of its main aim, raising the level of investment.

Gross domestic fixed capital formation (GDFCF) in constant 1975 prices peaked in 1973 at slightly over £21b and remained between £20.1 and £20.8b for the rest of the decade. Net domestic fixed capital formation (GDFCF net of capital consumption) likewise reached its apogee in 1973 at £10.9b but fell steadily thereafter to £7.4b by 1979. For manufacturing the story was even worse. In constant 1975 prices net investment had fallen to £0.8b in 1976 from its postwar high of £2.1b in 1970. Although it recovered somewhat to £1.2b by 1979, it still remained over 40% below the level nine years (see Table 10.5). To put the matter bluntly under Labour industry was not just falling short of the vast increase in investment called for by both the unions and the CBI, it was moving in the wrong direction. While this was in part due to the growth of capital consumption resulting from Britain's aging plant and equipment, the point is simply that the programme of tax credits and state aid could not even maintain existing levels of net investment let alone spark a major revival.

Another aspect of the relative and at times absolute reduction in corporate taxation seems pertinent to the present discussion, that is the corresponding decline in state revenue from this source. Look-

ing at Table 10.6 one can perceive a virtually continuous fall in taxes on company income (including distributions) as a share of total taxation over the past twenty-five years. The last Labour government was no exception to this rule; indeed, it departed from the relative stabilization of the previous decade. As a proportion of taxes on incomes the results of Labour policies are equally clear, especially with regard to the 45% drop in the two-year period from 1974 (see Table 10.7). This trend is particularly important since it implies that ceteris paribus government revenue had to be raised from other sources, and this is precisely what happened. In fact state expenditure leaped upwards particularly in the middle years of the decade, mainly as a result of the rise in transfer payments due in turn to changes in the demographic profile and the effects of stagflation (Wright, 1977, p. 146). Given the commitment later carried through to reduce the budget deficit by some 2% of our GDP over the three years from 1976, rising taxation especially on incomes inevitably played a large role in the economic programme of the government. This role was reinforced by the repeated warnings by the Chancellor to the unions that he would use fiscal measures to mop up wage increases in excess of the current norms. As a result the burden of adjustment fell on wage and salary earners through the rise in income tax, national insurance surcharge and taxes on consumer spending and considerably more so than would have been the case had corporate taxation been maintained at pre-existing levels. As a very rough estimate if Labour had retained company taxation as a proportion of fiscal revenue at the 1970-74 average, it would have raised an additional £7.5b over the next five years. Of course this would have meant a permanent profits' squeeze on the private sector and no doubt a tidal wave of bankruptcy, but it gives some idea of the scale of concessions introduced in November, 1974 (Table 10.6). As an alternative estimate from the Wilson Committee for the financial year 1978-79, first year allowances were due on capital expenditure

of nearly £10b, on industrial buildings amounting to £700m and on stock relief to the tune of \$1.4b, a total reduction in the company tax burden of some £12.1b for one year alone (Wilson Committee, Appendices, pp. 541-2). Although the last Labour government was specifically responsible only for the industrial buildings and stock relief aspects of this form of assistance, an important point here is that many companies now do not make sufficient profits to utilize all of the allowances due to them and must carry them forward to count against future years' taxation. As the same report put it: "This phenomenon known as 'tax exhaustion' reduces the effectiveness of tax incentives for investment" (ibid., p. 541).

The significance of the above argument seems most apposite to the crisis period of 1974-77; that is, the same years in which the burden of company taxation dropped most sharply were those in which through the combination of incomes policy and fiscal claw back real take-home pay fell by some 5% (CEPR, Vol. 7, No. 1, p. 14). I do not mean to claim here that the fall in revenue from concessions to business constituted the main constraint on Labour's economic programme, but it clearly had some significance in the continual and initially successful efforts of the Chancellor to hold down real wages. The ultimate importance of this relationship seems all the greater given the now abundant evidence linking the latter to shopfloor militancy and hence inflation.

Put most simply class conflict in modern Britain has found its sharpest expression in a struggle over the distribution of national income between wages and profits and the attempts to maintain real rates of post-tax growth for both factors (Goldthorpe, 1981 & Panitch, 1976). The policy actually pursued by Labour in 1974-79, as with the previous Labour governments of the 1960s, in practice effected a shift in those relative shares and rates of growth away from "working people and their

families" and towards owners and managers of capital through the combination of direct controls and fiscal measures. In this the government was initially fairly successful as wages fell and the share of national income going to profits rose from 10% in the third quarter of 1975 to 13.1% in the first quarter of 1977 (Tarling and Wilkinson, 1977, p. 401). However, as noted above the private sector did not take up the surplus thus generated and channel it into increased investment, and economic deflation effectively frittered away the potential benefits in sagging output and growing unemployment. In the end the union rank-and-file rebelled against the attempt to make it bear the main burden of economic retrenchment. The voluntary incomes policy broke down in 1977-78 as the number of and working-days lost due to industrial disputes shot back up and wage settlements accelerated in the effort to regain previous levels of real take-home pay much as with previous attempts at incomes policy (ibid., Henry and Omerod, 1978 & Henry, Sawyer and Smith, 1976). This process culminated in a series of disruptive and highly publicized strikes in the "winter of discontent" of 1979. The latter in turn severely damaged the credibility of Labour's claim of a special relationship with the unions as the key to its counter-inflation policy and economic programme in general. Consequently, it likewise played a major role in the electoral defeat for the government later that spring.

In sum the industrial strategy as it eventually emerged amounted to little more than an exercise designed to induce union co-operation with incomes policy and as a justification for substantial tax concessions to private industry. In so far as Labour remained in the tripartite voluntarist mode of planning there were severe limits placed on any extension of state control. Even the new public agency, the NEB, carried on its activities largely outside any political reference

and was in any case dwarfed in financial terms by the more traditional modes of public aid, namely loans, grants and reductions in taxation. By the end of its term the government had very nearly exhausted these latter forms of public intervention at least as a means of influencing corporate decision-making. Tax credits were now so extensive that little new could be offered as an inducement to invest, other forms of public aid could not be significantly increased without causing a major political controversy. In any case the effectiveness of these forms of assistance had already been brought into question despite their extensiveness (Grant, 1980b). More to the point company investment was mainly influenced by the rates of profitability and the overall state of economic activity. In so far as the government could influence the latter it was narrowly constrained by the limits on monetary expansion and the need to reduce the PSBR, and its economic policies thus undermined the professed aims of the industrial strategy. Within these limits Labour could only affect profitability by entering the distributional conflict on the side of capital, but this course proved to be highly damaging and divisive in the end. The programme of voluntaristic corporatism had apparently come to the end of its rather tortured road.

III The City, Industry and the Wilson Committee

The public debate on the relationship between the City and industry reached a peak in 1975-76. Various articles appeared in the financial press dealing with the range of issues discussed in Chapter Eight, in particular the role of equity as against loan finance, gearing levels, the short-term outlook of the markets, profitability, the arms-length relationship, various gaps in external finance, etc. Some of the commentary was quite critical (e.g. Lester, in Management Today, Feb., 1975, Investors Chronicle, May 30 and June 13, 1975 and the Economist, October 9, 1976). Other forums proved predictably more defensive, as was the case with the exchanges in the Banker (Feb., May, Sept. and Dec., 1976). Much of this debate simply rehearsed the arguments presented to the Wilson Committee and as such I will look at them in more detail below. However, the controversy acquired a sharp political edge with the publication of the NEC document, Banking and Finance, approved by the Labour Party Annual Conference in September, 1976. This made a number of proposals which were bound to send tremors through the City, not to mention industry and commerce. In particular it called for the creation of an investment reserve fund out of "blocked balances" of the major corporations along Swedish lines, integration of existing public sector financial institutions, nationalisation of the top seven insurance companies, the big four clearing banks and a merchant bank and reform of the Bank of England to make it more "publicly accountable" and end its role as representative of the City (Labour Party - NEC, 1976, pp. 19-24). Needless to say the government did not act upon any of these proposals, and there is little doubt that the Wilson Committee was primarily set up to diffuse this sort of pressure from the left of the Labour movement.

Much of the initial reaction of the City to criticism of its relationship with industry has been described above. At this point, however, I wish to describe briefly the recent history of a number of the initiatives

undertaken to deflate some of this criticism, especially as regards the arms-length relationship between the providers and users of finance. As noted above one highly trumpeted venture was the creation of Equity Capital for Industry (ECI) in 1976. Although born amidst controversy and scepticism a severely pared down version of ECI did survive the next few years. Its initial capital of some £41m, if only a fraction of its original goal of £500m, was at least subscribed by 365 financial institutions, including the major insurance companies, pension funds, unit and investment trusts and Finance for Industry (FFI). Yet, ECI did not even manage to live up to this meagre promise. By the end of March 1979 it had invested no more than £9.4m in a grand total of eight companies, two of which collapsed (Wilson Committee, Appendices, pp. 476-7 and Minns, 1980, pp. 87-8). This desultory performance was despite highly selective investment criteria which demanded an immediate return. One problem may have been its dependence on referrals from merchant banks which were not exactly sympathetic to the institution. In the end most of its profits were made not from investing in industry but from lending the bulk of its capital on the money markets (Minns, op. cit.). ECI proved to be less a bridge between institutional investors and industry than a precarious catwalk.

Finance for Industry fared somewhat better, reflecting its longer history and greater acceptability to banking capital. FFI had been set up in 1973 out of a merger of Finance Corporation for Industry (FCI) and the Industrial and Commercial Finance Corporation (ICFC). The latter two organisations dated back to 1945, in effect the City's somewhat belated acknowledgment of the "Macmillan gap" in the provision of medium-term external finance. In fact FFI operated as a holding company as both of its main divisions retained their separate identities, ICFC catering for small and FCI for large companies. In the next few years FFI established several other subsidiaries dealing with shipping

(Finance for Shipping (FFS)), leasing, property and consultancy. As noted earlier FFI had been beefed up with the announcement in Healey's "business budget" of November, 1974, that the clearing banks and the Bank of England would make available £1,000m through this facility for medium-term lending to industry, a successful move to scupper the government's proposed "Lever bank". However, the performance of the group was constrained by the strictly commercial criteria governing its investment decisions. Given the recession and the liquidity problems of British industry demand for new borrowings fell away over the next few years. In financial year 1975-76 FCI could only place £116m of its new funds, while ICFC increased its investments by slightly more than £23m (FFI, 1975-76, p. 4). The next year proved somewhat worse, as FCI advanced only £66.2m, while ICFC's gross investments grew slightly to £27.7m (ibid., 1976-77, p. 4). Over the next two years to March 1979 the performance of FFI as a whole picked up along with the gradual economic recovery, but this was not equally true of each of its divisions. Although ICFC's new advances increased to £50m in 1977-78 and nearly £68m in 1978-79, FCI could only manage to place £40m and £63m in the same two years (FFI, 1977-78 and 1978-79). In fact much of the increase in the total investments of the group was accounted for by its other subsidiaries. New advances by FFS grew to £12m in 1977-78 and £32m in 1978-79, while the leasing division registered increases of £48m and £46m over the same period (ibid.). Thus, while from its founding in 1973 to the end of March 1979 FFI as a whole had invested a respectable if modest sum of £650m in industry, an increasing proportion of this total came in the form of leasing and industrial hire purchase (Wilson Committee, Appendices, pp. 475-7). More to the point, even with the most favourable reading of the results the amounts involved were negligible in the context of the overall pattern of relations between industry and finance. Far from breaking the mould of orthodoxy, FFI adopted the standard practices

of City institutions, and its performance followed the fluctuating level of economic activity. As such it could hardly count as an adequate reply to union demands for a counter-cyclical investment fund as a key element in the industrial strategy. Nor did it fulfil Harold Lever's original expectations that it would "ultimately develop with a major impact on the future efficiency of British industry", that its operations would "involve the banks much more closely in the investment decisions of industry," or that it would "meet the challenge which has now been recognised of providing a stable form of long-term and medium-term lending for industry, for exports and for capital investment (Hansard, 14 Nov., 1974, cols. 607 & 609)."

The final development highlighted as signalling a significant change in the relationship of finance and industry was the growth of medium-term lending by the clearing banks. As discussed in Chapter Eight the Committee of London Clearing Bankers claimed in its evidence to the Wilson Committee that this type of lending accounted for £5,927m or some 39% (excluding shipbuilding finance) of total domestic advances to the non-personal sector in November 1977 (CLCB, pp. 101 and 276). However, of this total £2,937m or nearly half was eurocurrency lending, most of which is spent overseas on capital investment, working capital or acquisitions (*ibid.*, and pp. 133-9). Since the issue at stake here is the use of medium-term bank lending to finance U.K. industrial investment, much of the latter ought to be excluded, although it is impossible to put forward a precise figure given the available evidence. Whatever the exact amounts there is no doubt that medium-term lending by the banks has increased in recent years, but what this means is another matter. For one the growth of term-lending was conditioned by two factors: first the efforts on the part of the clearers to convert some of their "hard-core" overdrafts into this form, thereby charging higher interest rates. As such the growth of contractual lending has

not represented a source of additional finance for industrial borrowers and has been matched by the decline of the overdraft facility. The second factor was the evaporation of the market in long-term fixed-interest loans with the arrival of high inflation. From the point of view of industrial customers it is clear that medium-term contractual loans are only a second-best alternative to long-term fixed-interest loans, and that a considerable unsatisfied demand exists for the latter (Wilson Committee, Report, pp. 222 & 225). If the growth of medium-term lending hardly seemed to harbinger a radical change in the relations between the clearing banks and industry, it did begin to pose a liquidity problem for the banks. Already in 1976 the latter were warning that in the event of a rapid rise in demand, "they could fairly quickly reach a limit on medium-term lending beyond which they could not prudently go on the basis of their present deposit mix (The Banker, December 1976, p. 1454 and CLCB, p. 18)." Two solutions were possible for this problem: (i) the more unlikely one of attracting longer-term deposits and (ii) the more realistic one of introducing some sort of rediscounting facility by way of the Bank of England. Even before the Wilson Committee had convened the banks had begun discussions with the Bank over the second possibility (*ibid.*), but this may have been in response to pressure from some sectors of industry. The notion of a rediscounting facility to buttress medium-term bank lending had first been mooted in the NEDO report, Finance for Investment (1975), discussed in Chapter Eight. Sir Charles Villiers supported a similar scheme at a Financial Times conference in March 1976 on "The City in National and International Finance" (The Times, 4 March 1976, p. 18). More generally, the CBI, at least as represented by an interview with its economic director, Dermot Glyn, placed considerable faith in the enlargement of FFI and the creation of ECI as sources of long-term external finance (The Banker, Dec. 1976, pp. 1449-51). Similarly, while agreeing that there was "some scope for closer contacts and better understanding" between the two sectors, this

did not mean in his view "City people taking a direct part in industrial management," though there might be a case for "industrialists serving on City institution boards (ibid., p. 1451)." Thus, while treading carefully in order not to encourage the proposals of Labour's NEC or the TUC, one can see indications of a certain amount of behind-the-scenes pressure by some industrialists on the financial institutions to make some concessions to the latters' critics. To learn the fate of these various schemes we must turn to the evidence and report of the Wilson Committee.

The Committee to Review the Functioning of Financial Institutions was appointed in January 1977 under the chairmanship of Sir Harold Wilson and started to receive written evidence in the spring. The actual hearings began in the autumn of the same year and continued through to the end of 1978. The evidence was published in two stages for which no hard distinction applied, although the first dealt more generally with the financing of industry and trade and the second tended to concentrate more specifically on the regulation and supervision of financial institutions. As the second issue is not my particular concern here I will draw mainly but not exclusively on the first stage evidence. Although the Wilson Committee published an interim Progress Report at the end of 1977, its final Report did not appear until June 1980 well after Labour's electoral defeat. As such its work and subsequent conclusions cannot be said to have exercised any influence on the Callaghan government, and the subsequent Conservative government simply ignored it. My examination of the evidence to and recommendations from the Committee will therefore focus on three themes: 1. the successful effort to isolate and dampen the enthusiasm for certain pet schemes of the TUC and the Labour left, especially the extension of public ownership into the financial sector and the creation of a new kind of investment bank; 2. the response of industry and the City to the criticisms of financial practices discussed previously; and 3. the fate of some less politically hot but some might think equally significant suggestions for reform, especially the institution of some sort of central rediscounting facility to encourage medium-term bank lending.

TUC evidence to the Committee unlike the rest of the submissions took the industrial strategy as its point of departure. Its criticism of the industrial strategy highlighted three requirements: 1. a more active and positive approach on the part of the government; 2. closer linkage between the sectoral and company levels through the introduction of planning agreements; and 3. bringing the financial institutions into

the "industrial consensus" (Wilson Committee, Vol. 2, pp. 82 and 104-7). From this perspective the TUC submission focussed on the decline of the manufacturing sector, which it admitted was due to a complex of factors including the level of demand, productivity, non-price factors and the quality as well as the quantity of investment (ibid., pp. 74-5). However, in the context of a more vigorous programme to revitalise British industry it foresaw the need to double manufacturing investment over the next ten years. Here it challenged both the efficiency of the markets in allocating investment and more broadly the criterion of profitability as the sole guide to investment, i.e. that the latter should also take into account long-term prospects, the priority of home manufacturing, regional disparities, future employment, etc. (ibid., pp. 76-82).

Following from this the unions wanted a greater degree of public direction of investment especially with regard to the use of North Sea oil revenues. In terms of specific recommendations the TUC wanted the implementation of planning agreements to monitor major investment decisions and an increase in the funding of public sector agencies so that the NEB could dispose £1b per year and the Welsh and Scottish Development Agencies a further £½b, a move which would require funnelling roughly a quarter of total oil revenues through these institutions. As regards the private sector the TUC advocated a closer involvement of financial institutions with industry and suggested that the Wilson Committee investigate the possibility of rediscounting medium-term loans at the Bank of England as one means of achieving this. More specifically it proposed the creation of a new lending facility jointly financed by the public and private sectors and capable of investing £1b per annum. In effect the new institution would be a "massive extension of Equity Capital for Industry", backed by the insurance companies and pension funds as well as public revenues drawn from oil revenues and a new national savings scheme and capable of offering loan

as well as equity finance (ibid., pp. 82-5). In addition the TUC supported a new institutional framework, a tripartite standing committee to replace the NEDC Committee on Finance for Investment. The standing committee would play a more active role of direction in reference to an investment target, be responsible to the Chancellor of the Exchequer and the Secretary of State for Industry rather than the NEDC and perhaps include statutory powers of direction (ibid., pp. 85-6). In its second stage evidence the TUC repeated many of the same points, arguing in particular that it was not in favour of complete state direction of investment but rather a modification of market determination. In considering the Bank of England the TUC put forward proposals designed to ensure greater "public accountability." Opposing any moves towards developing a more independent role for the Bank the unions recommended instead that its Court of Directors be reconstituted on a "genuinely tripartite" basis, i.e. including at least one-third trade unionists, some of them drawn from the financial sector (TUC, 1979, pp. 56-8). Its only other significant proposals included the endorsement of the Post Office Union's submission calling for a merger of the National Giro and the National Savings Bank to create a public sector rival to the major clearing banks (ibid., p. 58). In addition as regards foreign investment it supported the case for existing exchange controls but advocated greater scrutiny, especially of the activities of multinationals, through the creation of a new Foreign Investment Review Agency which would include union membership (ibid., pp. 67-9). In sum the TUC submissions, while moderate by comparison to the NEC document a few years earlier, called for a strategy of investment linkage in which the public sector would play a more prominent and active role. Evidence from representatives of private business was uniform in its opposition to such an approach.

CBI evidence was very much in this vein. Its main argument was that industrial investment had not been restricted by a shortage of

external finance but by "a lack of confidence that industry will be able to earn a sufficient return (Wilson Committee, Vol. 2, p. 1)." It was not so much the quantity but the effectiveness of investment that was deficient, but in so far as the former had been limited, this was the result of the decline in profitability (ibid., pp. 6-11). To justify this argument the CBI drew from articles in the Bank of England Quarterly Bulletin. However, it relied entirely on figures for the pre-tax rate of return. The rather more favourable trend picture of post-tax profits was rather too conveniently ignored. Moreover, this assumption was implicitly challenged by the evidence of the Bank of England and the Treasury, which cited econometric research indicating a relationship between future expectations of profitability and the changes in the level of output over the previous few years (Vol. 5, p. 241 and Vol. 1, p. 47). The latter in fact provided the best "explanation" for levels of investment. In the words of the Treasury, "The dominant influence on investment, therefore, is the general macro-economic climate - and unless this is conducive to investment no measures specifically to encourage investment are likely to have much effect (Vol. 1, p. 47)."

As such the CBI evidence downplayed issues of gearing and the type of external finance. While admitting that both industrial managers and institutional lenders had expectations about "prudent" gearing ratios, it argued that these were justified by recent troubles and that comparisons with other countries could be misleading (Vol. 2, pp. 14-22). Similarly, it recognised the usefulness of long-term fixed-interest loans but saw the solution to their disappearance not in the introduction of variable rate medium-term lending but rather in the removal of the source of uncertainty, namely the rate of inflation (ibid., pp. 23-5). As regards state finance the CBI saw no reason for any extension of public sector involvement and repeated its support for "non-discriminatory" tax allowances as against selective forms of aid (ibid., pp. 26-7).

In short the whole tenor of the evidence was a "vote of confidence" in the financial system. In so far as defects or gaps were recognised with regard to smaller companies this was seen mainly as a problem of communication. The main difficulties for these companies were pictured as essentially due to high taxation and inflation (ibid., pp. 31-8). Although somewhat sympathetic to the notion of a Small Business Administration on the American model to provide information and guarantee loans, the CBI remained agnostic on this issue (ibid., p. 35). Thus, in respect of specific recommendations the CBI proposed the following: a reduction in "the mounting burden of capital taxation," an improvement in financial advice for smaller firms, a closer relationship between companies and their shareholders, the removal of uncertainty regarding the tax treatment of stock relief, the abolition of dividend and profit margin control, an extension of some ECGD schemes and a relaxation of exchange controls. The central point was that given a reduction in inflation and an improvement in profitability, "internally generated funds, suitably complemented by private-sector external funds, will then be adequate to finance the industrial recovery (ibid., p. 40)."

In their oral evidence the CBI witnesses largely repeated the same refrain. Sir Arthur Knight (Courtaulds) pointed to labour productivity as the biggest single factor explaining the low efficiency of capital. He made it plain that what was at issue here was less workers demanding a bigger slice of the cake than "the way in which on the shop floor the practices which have been there for a long while have had a greater impact in the last 15 years or so (ibid., p. 53)." While admitting that state agencies like the NEB had a role to play with regard to companies facing unfair competition and in holding government shares, (later Sir) John Methuen, Chairman of the CBI, felt the latter should be returned to private ownership in due course. He similarly argued that North Sea oil revenues should be used to bring down taxes, especially direct forms, rather than for selective investment through government intervention

(ibid., p. 65). The sole area where they were prepared to admit the existence of any gap in the financial system was in relation to small and new businesses. Here again, though, the thrust of the argument was that lower taxation was the answer. Only as a temporary stop-gap until lower taxes had worked through into higher personal savings was there a case for government guarantees or subsidies of loans (ibid., p. 67).

Such was not the view of the Association of Independent Businesses. Representing in its own view the wide range of unquoted firms the AIB took a far more critical view of the role of financial institutions. Although it too highlighted changes in the rate of taxation as essential to improving the environment for small businesses, specific features of the financial system were seen as detrimental. In particular, the AIB attacked the banks for their "obsession with security" in the provision of loan finance as well as the "rigid rules" regarding the ration of long-term lending to short-term borrowing (ibid., p. 114). These practices were viewed as placing small businesses in Britain in a disadvantageous position compared to the Continent or the U.S. Recognising that these practices were unlikely to change without some assistance from the government, the AIB recommended in addition to various tax changes the institution of government guaranteed loans similar to the ECGD scheme and an "over the counter" market in the shares of unquoted companies (ibid., pp. 121-2). Thus, not only was the AIB more critical of the role of financial institutions than the CBI, but it saw the provision of government guaranteed loans as a permanent and valuable feature rather than a temporary palliative.

Representations from the financial sector tended unsurprisingly to justify the existing system with few concessions to criticisms of the AIB and none whatsoever to the position of the TUC. The Committee of London Clearing Bankers set the tone for the peak associations that followed. The bulk of its evidence was concerned with describing and

defending existing arrangements for the financing of investment. For example the "relatively low" level of lending to manufacturing industry was explained by the reluctance of the latter "to make use of the bank finance available to it (Vol. 5, p. 164)." The CLCB did recognise the existence of some gaps and defects, in particular term finance in the range of 10 to 20 years and risk capital for small businesses, although ICFC and the banks' own equity subsidiaries were seen as partially filling this role (ibid., p. 178). Of somewhat greater interest the clearing banks noted what they termed the "proprietorial gap" in the financial system by which they meant that "the proprietorial functions traditionally discharged by the individual entrepreneur and the private shareholder in the past have not been perfectly assumed by today's professional manager and institutional shareholder (ibid.)." In terms of specific recommendations the CLCB advocated: 1. a policy of fiscal neutrality towards all types of savings (in reference to the position of the building societies, insurance companies and the national savings movement); 2. a review of the institutional machinery for providing equity or long-term funds to smaller firms (with a view to the possibility of channelling funds from insurance companies and pension funds through such institutions as FFI); 3. improvements in facilities for long-term finance (including consideration of an official refinancing arrangement); and 4. improvements in the techniques of monetary policy (mainly the removal of the special deposit scheme and the use of "non-discriminatory instruments"), (ibid., pp. 179-81). In their oral evidence the representatives of the CLCB made it clear that as regards the third recommendation they envisaged only a facility extended on a short-term basis if a bank ran into liquidity problems as the result of expanding its term lending and not a more permanent arrangement (ibid., p. 195). However, later evidence from the Bank of England indicated that discussions on the issue had been dropped, and that the Bank was in any case rather sceptical about its feasibility

(Vol. 5, p. 252). Similarly, the CLCB opposed the creation of a guarantee scheme for loans to small businesses on the lines of the American SBA (ibid., p. 208).

Evidence from other financial institutions largely repeated the same themes with some slight variations. For example the Accepting Houses Committee was rather more sympathetic to the idea of an SBA-type agency (ibid., p. 100). Finance for Industry on the other hand voiced its opposition to any such scheme which would encourage "weak, small businesses to increase gearing levels which are already dangerously high (Vol. 4, p. 89)." FFI similarly lauded the UK system of providing finance "in appropriate and orthodox forms" as superior to that of other countries which had higher gearing ratios, large quantities of "soft" money and consequently greater instability in periods of economic recession (ibid., pp. 84-5). The Insurance Company Associations naturally opposed any move on the part of government authorities to intervene in the market and "direct insurance companies and other financial institutions to invest a stated proportion of their funds in prescribed forms of investment (Vol. 3, p. 84)." Indeed, the ICAs extended this objection even to voluntary guidance in line with the industrial strategy insofar as this would limit their "traditional freedom of investment (Second Stage Evidence, Vol. 2, p. 42)." The Stock Exchange similarly objected to the TUC proposals for a tripartite standing committee with the power to direct £550m annually of the funds of the major savings institutions (ibid., p. 228). The position of the CLCB on "fiscal neutrality" for similar types of savings was likewise supported by the Stock Exchange (Second Stage Evidence, Vol. 4, p. 38) and the Insurance Companies Associations (ibid., Vol. 2, p. 24), while the Building Societies Association was neutral on the issue (ibid., Vol. 3, p. 63).

In effect critical comments on the relationship between industry

and finance were few and far between. The Treasury reported that "from the point of view of the suppliers of finance it would appear that viable projects and credit worthy companies can, by shopping around for the right mix, obtain all the financial resources they are likely to need." However, it noted at the same time that "there are continued suggestions, for example from Sector Working Parties, that this is not so (Vol. 1, p. 58)." It likewise suggested that financial institutions might be better placed to meet industry's needs if relations were closer, if banks placed more emphasis on long-term expectations and if institutional investors intervened more often in company affairs. It similarly treated with some favour the argument that risk capital might not be readily available because existing institutions took too narrow and short-term a view of their commercial interests and because some cases might not qualify by normal commercial criteria but only by reference to long-term national interest (*ibid.*). Similarly, while the NEB generally supported the consensus view amongst the representatives of business that the main constraint was profitability rather than the supply and forms of finance, its chairman did recognise that relations between institutional investors and management could be unsatisfactory when a company got into trouble (Vol. 4, p. 37).

When the final Report of the Wilson Committee appeared in June 1980, it contained few surprises. A lengthy document which was in the main a description of changes in the financial system since Radcliffe, in its introductory statement it singled out three themes which ran through the Committee's considerations: 1. the impact of inflation; 2. the enhanced role of financial institutions in the economy; and 3. the need to ~~improve~~ economic performance through greater and more effective real investment and the role of financial institutions in this process (Report, pp. 18-21). In the following I will briefly look at the arguments and recommendations of the Report regarding some

of the issues raised above, namely the fiscal treatment of savings, the relationship between finance and industry, the stimulation of new investment and the possible role of new institutions and the extension of public ownership.

On the first point the Report recommended a greater uniformity in the taxation of similar types of savings (pp. 201-6). On the second issue, it recognised the significant differences in financial institutions and their relations with industry between Britain and other advanced capitalist countries, especially on the Continent and in Japan. It likewise took note of the "impressive degree of unanimity" on the desirability of institutional investors taking a more active interest in companies in which they held significant shareholdings. At the same time it pointed out some of the disadvantages this could lead to, the possibility of greater financial cautiousness, costs in terms of managerial time and the risk of creating two classes of shareholders (pp. 248-51). In sum it felt that existing arrangements were more or less adequate and that any need for future collective action could be effectively dealt with through the existing mechanisms of Investment Protection Committees and the Institutional Shareholders Committee with the aid of the Bank of England (pp. 252-6).

With regard to investment the Committee concluded that there was no evidence of any shortage at existing levels of demand and rates of interest, but it also noted that this was hardly surprising and that the general levels of supply and demand and the cost of capital might not be the most appropriate from a wider economic perspective. It likewise qualified these remarks by referring to the particular problems of small firms and high-risk investments (pp. 257-8). To deal with these latter specific issues the Committee recommended the establishment of an English Development Authority, a loan guarantee

system on an experimental basis and a new form of investment trust, small firm investment companies (pp. 216-21 & 268, and Interim Report, p. 41). The prospects for improving the overall quantity and quality of investment were largely pictured in terms of changes in general economic conditions, mainly higher levels of profitability and productivity. However, the Committee also saw the need to encourage long-term debt financing and for this reason recommended the creation of rediscounting facility either through the Bank of England or some other agency like FFI (pp. 269-4). Similarly, no-one on the Committee objected to the principle of subsidisation of the cost of capital, although discussion of this issue was cautious because of uncertain benefits and possible expense. From this point the Committee divided on the issue of a new investment institution. Half the Committee felt that the recommendations already made together with such institutions as the NEB and the development agencies were largely sufficient or rather as much as could be done given that the main problems lay elsewhere (pp. 268-70). A second group of four members advocated a new lending facility in order to increase the demand for finance and lower the cost of capital but viewed the TUC proposal as unworkable. They wanted a new body (or bodies) to be gradually built up, have mixed public and private financing, act independently of government and avoid specific targets regarding the composition of its board and its investment objectives (pp. 271-3). The final group of five including the Chairman and the trade union members supported a modified version of the TUC proposal. In their view the size of additional investment required for industrial revitalisation required a new institution with fairly massive funding. Such a national investment bank would be backed by public money from a North Sea oil fund and private finance from the institutional investors so that it would have the capacity to invest £2b per annum. It would likewise have an explicitly tripartite composition in its board of directors and operate

in close co-operation with the institutions associated with the industrial strategy (pp. 274-87).

Finally on the question of public ownership the Committee recommended against the proposals of the Labour Party NEC for its extension to the main clearing banks and insurance companies (p. 362). On the other hand it remained fairly agnostic on the merger of the National Girobank and the National Savings Bank with a majority in favour of allowing them to continue as separate organisations (p. 370). In sum the Report and the work of the Committee in general was fairly effective in terms of its original implicit aim, namely defusing the left-wing pressure for dramatic action to exert political control over the financial sector. It likewise served as a forum for a united front of private capital against such pressure and effectively blunted criticisms which portrayed the problem in terms of the supply of finance and failed to recognise the reality of the issues of profitability and depressed output. At the same time its recommendations were for the most part fairly minimal and as such unlikely to satisfy the TUC. Indeed, the latter continued to press for a national investment bank over the subsequent period as a major plank in its programme for industrial regeneration (TUC, Economic Review, 1981, ch. 9).

Conclusion

The trajectory of the Labour governments of 1974-79 is rather paradoxical. On returning to power it appeared that Labour might "break the mould" of postwar British politics in the direction of extending state control over the economy and deepening previous attempts to place tripartite concertation at the heart of the formulation of economic policy. By the end it had become clear that the government had precipitated a rather major breach in the programme of voluntaristic corporatism that had emerged in the 1960s but in a rather different direction. Along the axis of representational inputs Labour maintained and widened the tripartite forum of the NEDC, but it is fairly evident that the latter had little or no impact on the policies actually pursued by the government. The industrial strategy served little purpose other than as an inducement for the unions to cooperate with yet another period of wage restraint. For their part the unions got little in return once the initial flurry of legislation associated with the Social Contract had passed. Indeed one can make a good case for claiming that at least as regards influence over the basic thrust of macroeconomic policy, the political power of the unions had reached a new low.

As regards policy outputs the government superficially remained attached to the programme of ad hoc intervention and voluntaristic planning, but the core of the industrial strategy was in fact the virtual elimination of the corporate tax burden. More significantly in the long run, the whole framework and mode of procedure for the formation of economic policy was radically transformed. With the abandonment of full employment economic policy was now constructed primarily in reference to financial criteria, i.e. the PSBR and the money supply. The elevation of the principle of fiscal and monetary restraint dominated every aspect of the government's programme. In

this respect the parallel with the inter-war period is all too evident, as once again the adherence to fixed rules of "financial prudence" precluded any effective approach to the growth of unemployment. While Labour did not meet the demand of the new right for a balanced budget and an independently constituted central bank (e.g. Buchanan et al. 1978), it clearly travelled some distance down that path in the attempt to insulate economic policy from the "irresponsible" demands of subordinate groups and classes. However, in contrast to the inter-war period the adoption of such rules for decision-making was recognised as a politically determined event. While it was possible to justify the monetarist counter-revolution in political-economic terms (putting the value of money first), there was no chance of returning to the belief that this was a "natural" feature of economic order. As such the political conditions for the pursuit of such a policy were likely to be much less stable, especially once the consequences for employment became clear.

TABLE 10.1

State Assistance to Industry - Financial Years 1974/75 to 1978/79

<u>Programme</u>	<u>Cumulative Total £ million</u>
Regional Development Grants	1755.8
Investment Grants	228.5
Regional Selective Assistance	532.2
Assistance under Local Employment Act	223.1
Selective Assistance under Section 8 (Industry Act 1972)	1012.1
Special Assistance to Shipbuilding and Associated Industries	<u>1098.9</u>
TOTAL	£ 4850.6 million

Source: Industry Act 1972, Annual Reports of the Secretaries of State for Industry, Scotland and Wales, 1975-1979

TABLE 10.2

Mainstream Corporation Tax (excluding tax on distributions)
£m at constant 1975 prices

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
2742	3192	2653	2348	2224	2184	1349	1075	1509	1797	2112

Source: CSO, National Income and Expenditure, 1980: Table 5.1

TABLE 10.3

Mainstream Corporation Tax as a % of Total Company Income

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
14.9	17.3	14.2	11.8	8.8	9.2	6.8	4.8	6.6	7.8	7.8

MCT as a % of Gross Trading Profits Net of Stock Appreciation

25.5	31.5	24.7	20.9	18.6	28.9	17.6	17.6	13.4	14.8	17.7
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Source: ibid.

TABLE 10.4

Payments of mainstream corporation tax 1976-1979

(fm.)

Company	1976-7		1978-9	
	Profits	Tax paid	Profits	Tax paid
Allied Breweries	63	nil	77	nil
Bass Charrington	69	17	106	21
B.A.T.	374	2	433	nil
Bowater	78	nil	90	nil
British Leyland	71	nil	15	nil
B.P.	1784	nil	2225	37
Courtaulds	46	nil	54	nil
Distillers	91	7	163	32
Dunlop	74	nil	43	nil
Esso	69	nil	43	nil
Ford	122	nil	242	72
G.E.C.	207	41	325	92
Grand Metropolitan	57	nil	116	29
G.K.N.	70	nil	87	nil
I.C.I.	540	12	421	43
Imperial Group	130	9	131	nil
Marks & Spencer	84	29	118	40
P. & O.	31	nil	18	nil
Reed International	37	nil	81	22
Rio Tinto-Zinc	279	nil	284	nil
	4276	117	5072	388

Source: *Kay and King, 1980, p. 194*

TABLE 10.5

Gross Domestic Fixed Capital Formation
£ billion at 1975 prices

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
19.0	19.5	19.7	19.8	21.2	20.6	20.4	20.6	20.1	20.8	20.5

Net Domestic Fixed Capital Formation
(GDFCF less capital consumption) £ billion at 1975 prices

10.3	10.3	10.2	9.9	10.9	10.0	9.3	9.1	8.0	8.2	7.5
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Net Domestic Fixed Capital Formation - Manufacturing
£ billion at 1975 prices

1.9	2.1	1.7	1.1	1.1	1.4	1.1	0.8	1.0	1.2	1.2
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Source: CSO, National Income and Expenditure, 1980; Tables 10.7 and 11.8

TABLE 10.6

Company Tax Payments as a % of Government Receipts from Taxation
Annual Average (excluding ACT)

1955-59	1960-64	1965-69	1970-74	1975-79
15.2	10.0	7.7	6.9	3.9

Company Tax Payments as a % of Government Receipts from Taxation
(excluding ACT)

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
------	------	------	------	------	------	------	------	------	------	------

7.6	8.5	7.4	6.8	6.2	5.7	3.5	2.7	3.8	4.5	5.0
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Estimate of additional Company Tax payments at 1970-74 average of 6.9% TOTAL 7.5 £b

Source: CSO, Economic Trends, Annual Supplement, 1981; pps. 151 and 166

TABLE 10.7

Company Tax Payments as a % of Central Government Receipts from
Income Tax (excluding ACT)

1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
20.0	22.0	18.7	18.1	16.3	13.7	8.1	6.5	9.4	11.3	13.4

Source: CSO, National Income and Expenditure, 1980; Tables 5.1 and 7.2

FOOTNOTES TO CHAPTER TEN

1. For a more complete account of the traditional and recent weakness of the Labour left and the convoluted relationship between the Parliamentary Party, Conference, the Constituency Parties and the unions consult Minkin (1978), Hatfield (1978), Coates (1980) and Panitch (1979).
2. See Chapter Nine.
3. For a critique of the experience of incomes policy in the 1964-70 Labour governments and an early statement of the "social contract" position, see the pamphlet by Wilson's close economic adviser, Thomas (now Lord) Balogh (1970).
4. The Prime Minister personally took over the chairmanship of the Cabinet sub-committee on industrial affairs to thwart the influence of Benn and his friends over the drafting of the White Paper. As he himself described the event:

It was not until late July that the Department of Industry's draft White Paper emerged. As I had feared, it proved to be a sloppy and half-baked document, polemical, indeed menacing in tone, redolent more of an NEC home policy committee than a Command Paper. One basic weakness was that it appeared to place more emphasis on the somewhat amorphous proposals for planning agreements than on the NEB. A special committee of senior ministers was set up under my chairmanship to mastermind the re-drafting, which quickly decided that the document should be re-written ... The section on planning agreements was cut down to size. (Wilson, 1979, p. 33).
5. See the interesting discussion in Hatfield (1978), ch. 11.
6. See Coventry, Liverpool, Newcastle and North Tyneside Trades Councils (1980) for a somewhat lurid but nonetheless interesting account of the experience of the NEB from the point of view of trade union activists.
7. See Industrial Strategy: Memorandum by the Chancellor of the Exchequer and the Secretary of State for Industry; NEDO: January, 1979, for a complete list of the commitments of the government on the basis of the industrial strategy.
8. See Industrial Strategy: Analysis of Sector Working Party Reports; NEDO: February, 1979.
9. ibid., esp. ch. 6.

10. See Industry Act, 1972 as well as the annual reports mentioned in Table 10.1.
11. See below, Section III.
12. See Footnote 8.

CONCLUSION

Why is there so Little Corporatism in Britain?

It is hardly an understatement to say that British society had reached a terrible impasse by the middle 1970s, a predicament for which there are no clear lines of resolution for the predictable future. A central theme of this dissertation has been the oscillation between forms of liberalism and corporatism/interventionism in 20th century British political economy. This degenerative spiral should not be confused with current 'middle way' allegations of the pernicious effects of 'adversary politics'. This is by no means a new idea, although in previous works it has been mainly applied to the ideology of the Conservative Party (Harris, 1972), or in matters of industrial relations (Crouch, 1977 and Moran, 1977). My contention here has been that such a characterization can also be applied to relations between government and business (especially industry) and more generally to the formation and implementation of industrial and economic policy. In this sense the election of the Conservative government in 1979 can be seen as another twist to this vicious cycle, although the particular virulence with which this government has pursued its pro-market programme marks a qualitative break with post-war policies.

I have already noted the extent to which the Labour governments of 1974-79 made substantial concessions in the direction of a programme of "financial control" and "fiscal responsibility", opening the door which Margaret Thatcher walked through. What in effect the latter did was to marry the same political and economic forces which structured

Labour's policies with an appeal to the traditional right of her own party, the small business lobby, and a populist anti-welfare, anti-state and pro-law-and-order rhetoric. This new ideological and programmatic pie, a more ideologically-based monetarism, secured at least temporarily both the politics of power and the politics of support (Gamble, 1974) in the sense of the adherence of the dominant economic forces (principally the City but also with less consistency the CBI) as well as an electoral base. Since the election, however, the political and economic conditions for any medium-term continuity of this approach have become less and less favourable. In part this is due to a host of new familiar reasons, the inability of the government to actually control the money supply in the context of modern financial conditions, or even to choose an index which makes some unambiguous reference to the former. In this regard the problems with the chosen target of the government (M_3) and its close relationship with the pattern of public borrowing have in fact led to the re-emergence of the PSBR as the central constraint, so the continuities with the previous Labour government are stronger than would at first seem the case.¹ Similarly, one could refer to the incapacity of this programme to come to realistic terms with the problems of the "monopoly power" of both the unions and the corporate sector and its reliance on notions of "changed expectations" which are at variance with a sociological appreciation of economic behaviour and attitudes (Goldthorpe, 1978 and 1981). Finally, adherence in terms of both the politics of power and support has slipped badly, as first the CBI and then even the City lost faith in the monetarist prescription. While it is hardly appropriate to make predictions, the future most likely bodes political instability, as the electorate comes to terms with the consequences of monetarism in the form of mass unemployment and urban disintegration.

Apart from these brief comments it is not my intention to analyse here the genesis or fate of Conservative policies. Rather I will return to some earlier themes and consider the implications of the argument and evidence unfolded above as regards the representation and influence of the major socio-economic interests.

In the Introduction I noted the parallel lines of argument advanced by Hilferding and Shonfield in widely differing circumstances and junctures predicting in effect a stabilisation of a modern political economy on the basis of organized capitalism and quasi-corporatism. More recently, various authors have pointed to the decline of Keynesian politics, let alone the development of the latter towards a more corporatist/interventionist programme, in most advanced capitalist societies over the last decade (e.g., Goldthorpe, 1981, Shonfield, 1981, and Skidelsky, 1979). While it is possible to designate the general conditions in political-economic terms for both the demise of the Keynesian consensus and the instability of the corporatist alternative (ibid. and Sabel, 1981), my concern here is with the particular weakness and instability of the latter project as regards Britain and the specific features that might account for this. In the first place I have pointed to the structural and institutional aspects of both organized labour and industrial capital that have militated against the development of a more concerted programme of intervention. Yet, efforts in the latter direction have emerged at a number of junctures, mainly but not exclusively under the aegis of a Labour government. This rather weak impulse towards a "producers' alliance" has been blocked in broad terms by Labour's adherence to a form of consensus politics or "democratic planning" that has operated within the bounds of what was acceptable to business interests and to a lesser extent organized labour. I will return to the particular features that precluded an "industrial consensus" on the part of the unions and industry in a moment. The second theme has been that this

rather weak impulse has been deflected by the political and economic pull of financial capital. Thus, patterns of financial dominance in the political system are crucial to an understanding of the limits to and constraints upon the corporatist programme. In the following sections I will focus on the relative positions of finance and industry after taking a brief look at that of the unions. In this my aim is to highlight an argument based on the political, economic, structural and institutional features depicted in previous chapters for the historic weakness and instability of corporatist/interventionist programmes in modern Britain.

The Unions and the TUC

The political and organisational strengths and weaknesses of British labour have been stated often enough in the past but it is appropriate to repeat the main points here. In institutional terms the modern unions began as an uneasy compromise between class and occupational interests (Hobsbawm, 1968 and H. A. Turner, 1962), a feature which has remained paramount to the present day. Thus, union structure in the modern period has been characterised by its "occupational striation" (Ulman, 1968) and weak and narrowly focused administration at the national level on the one hand and by the development of powerful but locally oriented shop-steward and workplace organisations at plant level. Similarly, the unions' industrial muscle in the post-war period of full employment has been based in the first instance on the 'second-tier' of industrial relations and built round a twin strategy of job control at the point of production (Zeitlin, 1980) and wage militancy (Panitch, 1976). At the same time it is most easily mobilised around these issues and proved most powerful in a defensive or what could at most be described as an incrementally aggressive posture.

Parallel considerations apply to the issue of the influence of

the unions and the working class more generally in the political realm. Briefly stated the modes of influence include pre-eminently the following: the relationship with the Labour Party, direct access to government and the administration, industrial action and last but by no means least electoral controls. The relationship between the unions and the Party has obviously grown in significance in recent years, mainly, though not exclusively, through the influence of the left at Conference. However, this vehicle of influence has proved much more effective at the programmatic level, the drawing up of Party platforms and manifestos, than in the actual formulation or implementation of policies. As regards the latter it is modes of direct access that are most important, and here the TUC has hardly proved very effective. The TUC can be crudely depicted as something less than the sum of its parts. The political voice is heard most clearly, and it is able to mobilise support most convincingly, when dealing with industrial relations issues narrowly defined or defending the existing practices of its members. Even in these areas its advice and strong protests have been ignored by Conservative governments both with regard to the 1972 Industrial Relations Act and the current employment legislation. When one moves outside this area to wider issues of economic and industrial policy, its positive influence even at its supposed height during the period of the Social Contract can only be described as minimal. It is only in a defensive sense around a narrowly circumscribed set of issues that one can speak meaningfully of trade union power in terms of direct access to government.

Looking at industrial and economic policy more directly specific institutional factors should be added to the above considerations. Although for example TUC annual economic reviews have increased in sophistication over the years since their initiation in 1968, the incapacity of the peak organisation, the lack of support staff and resources (which holds equally true for individual unions) have certainly

hampered the development of coherent and realisable alternative policies. Similarly, the diverse occupational basis of most unions has restricted their effective representation on an industry basis as in the case of the Industrial Strategy (Metcalfe and McQuillan, 1979). At the same time these very weaknesses have prevented collusion at national level on an unfavourable basis for all but the very short term. This rather negative aspect of union power can be seen in a paradoxically positive light in that it has in the past ruled out certain avenues of crisis resolution that would have implied deterioration of working class incomes and conditions of employment.

Similar considerations apply to the use of industrial action. Again this particular weapon has had a largely defensive character, although that has not prevented a sort of incremental encroachment on managerial authority in conditions of prolonged full employment. In terms of the present discussion it can be viewed as largely responsive, especially to trends in real take-home incomes, and again as a decentralised, but for considerable periods effective, means of preventing some kinds of "solutions" to the British predicament. Having said that it is equally obvious that the return of mass unemployment heavily qualifies both the latter and the previous point. The inability of the unions to offer effective opposition to the ending of full-employment is a telling indictment of previous practices and implicit or explicit strategies. Whatever happens in party political terms in the near future, it is quite clear that the leverage of industrial action will not regain its previous force for some time to come. Likewise the recourse to industrial action has entailed significant costs in the past as symbolised on one level by the winter of discontent. Equally important is the diffusion of a set of attitudes amongst, in particular, the union left which have not exactly encouraged a progressive movement in devising or implementing new sets of policies: that is, one can observe

an oppositional tendency amongst left-wing union leaders which in effect mirrors rank-and-file sectionalism, as in the current attachment to "free collective bargaining". As a final point these costs have been equally clear in electoral terms, which have proved increasingly unfavourable in recent years. It has yet to be seen whether a government can survive ten per cent unemployment, but it seems equally obvious that a new kind of package is needed if the unions and the Labour movement generally will ever regain a secure base in the politics of support.

Industrial Capital and the CBI

The weakness of the CBI as a political representative association has been noted often enough in the past. This is the main substantive conclusion of the chief work on this organisation (Grant and Marsh, 1977) as well as that on its predecessor, the FBI (Blank, 1973). My own conclusions are broadly similar to the above authors, although with two important qualifications: 1. in some respects the lack of influence of the CBI has been exaggerated and 2. its institutional and organisational weakness should not be confused with the positional weakness of capital as a whole. In part as I argued most explicitly in Chapter Eight, these representational features of industrial capital can be seen as predicated upon certain structural and relational characteristics of British business, characteristics which have endured despite the important changes of the post-war period. Pre-eminently I have in mind here the federal structure of the industrial company, which has preserved a decentralised and often family-based pattern of authority as the locus for all but the main financial decisions and has in turn implied that the head office functions primarily as a financial control centre. Secondly, the pattern of economic relations between industrial companies and financial institutions have been dominated by the practices and priorities of the latter. This economic relationship has re-inforced

a short-term orientation towards profits, earnings, marketing etc., and likewise retarded, if not exactly prevented, the emergence of a longer-term planning orientation, which would be more conducive to a different kind of industrial politics.

In addition to these structural and relational features one should point to the organisational weakness of the CBI itself. Even more than the TUC the CBI represents the lowest common denominator of the interests of its members. In the same vein its ability to take an initiating or regulatory role has been severely limited, although this has been less true in the last ten years or so, as indicated by the obvious exceptions of the voluntary price freeze under Heath and the concessions on taxation and price controls under Wilson and Callaghan. Like the TUC it has proved most effective in a defensive capacity, lobbying on the common ground of improved profitability, lower taxes, interest rates and public expenditure, more "responsible" wage claims, etc. Yet, this has not prevented some quite extraordinary and hypocritical vacillations over quite a range of issues from industrial relations to monetary policy. In part this has been a feature of its aggregative function, its attempt to reconcile the divergent interests and ideological positions of small versus large businesses, national as against multi-national capital etc. In other areas, it should be seen as part of an effort to present a "united front" of capital even when the latter includes non-industrial interest. Thus, the inconsistent stance on monetary policy and the unwillingness to pursue criticisms of financial institutions in recent years is a result in some respects of the subordinate position of industry discussed above and in others of the fear of opening the door for more radical proposals from the left. In a more speculative vein one might relate the political inconsistency of industry to two potentially contrary "logics" inherent in its structural location. One, the "economic", pulls it in the direction of profit maximisation, cost

reduction, monetary stability and hence towards a confrontational relation with organized labour. The other, "technical" impulse pushes it towards planning, market control, and co-operative arrangements with the unions in a Galbraithian search for monopolistic security. The relative importance of fixed capital costs and union power might indicate why industry appears to experience the opposing face of these two logics far more than finance. Having said this it should be noted that the CBI has had some notable successes in recent years, that it is not the only voice of industry, let alone capital as a whole, and that indirect forms of influence are as if not more important than the direct lobbying efforts of a peak association. To illustrate these points briefly I will have to look more closely at the various modes of access and influence available to the industry in terms of the politics of power.

The relationship between industry and the main political parties has been fairly thoroughly examined elsewhere (Grant and Marsh, 1977, pp. 115-118, and Grant, 1980a and 1981). Briefly, some of the main points of these discussions concern the uneasy relations with the Conservative Party owing to the position of small business amongst the membership, the over-representation of City interests amongst MPs, the concentration of non-constituency financing in a few large companies and the fear on the part of the Tories of being too closely identified with big business. At the same time it is quite clear that industry and capital in general enjoy closer links with the Conservative than with the Labour Party and that contacts with the latter are more likely to be ad hoc and informal. Yet, Labour governments have proved more receptive than their Conservative counterparts to the views of industry generally and the CBI in particular, especially in the recent past.

Turning to modes of direct access it is equally evident that industry has a privileged position vis-à-vis labour and other subordinate groups and classes. This is true whether one looks at representa-

tion on advisory bodies and multi-or-tri-partite agencies or the more important bipartite and informal links with sponsoring departments, in this case primarily the Departments of Industry and Trade, as well as the Treasury (ibid. and Metcalfe and McQuillan, 1979). As an illustration of the significance of the informal, bipartite links it is useful to examine the description of the formation of industrial policy under the last Labour government given by A. M. Bailey, the Under-Secretary in charge of the Industrial Policy Group of the Treasury. This unit worked closely with the Department of Industry feeding the latter's views on industrial interests especially as regards particular industry groups, into Treasury discussions where they would be co-ordinated with financial implications as brought in by the Department of Industry, the Bank of England and other departments (Wilson Committee, Vol. 1, p. 84). The rest of the exchange between Mr Bailey and Clive Jenkins of ASTMS deserves to be reproduced verbatim:

Mr Jenkins - How do you get the companies' views?

Mr Bailey - I talked about the indirect way of getting them - through the Department of Industry divisions who are constantly in touch with companies. We go on visits when we can find the time. We make contact informally in lots of ways. The Permanent Secretary of the Treasury has about monthly (sic.) meetings with industrialists.

Mr Jenkins - How is that organised?

Mr Bailey - That is again pretty informal. Eight or ten industrialists are invited to discuss with senior Treasury officials a particular theme, a broad theme, like exports or financial problems or whatever seems appropriate and topical. Also they have about a half-hour exchange of views on macro-economic prospects, particularly as they affect the company sector. This is a fairly loosely structured but from the Treasury point of view very useful opportunity to exchange views directly with businessmen. Again, the whole industrial strategy work is an important way of getting views systematically from particular sectors of industry, and of course from the trade union side as well as the management side.

Mr Jenkins - How many trade union officials go into the Treasury for these discussions?

Mr Bailey - As of now I have to say none.

Mr Jenkins - I suspected that, I must say.

Mr Bailey - It would be nice if we could arrange something similar.

Mr Jenkins - So there are no agendas for these meetings: it is just friends talking to friends, is it?

Mr Bailey - Except, as I say, in a loosely structured way, having a theme for discussion, We do have the TUC in pretty regularly to the Industrial Strategy Staff Group discussions on the progress and organisation of the industrial strategy work (ibid., pp. 84-5).

Among other things the above conversation illustrates that, while the CBI is the normal communications route for the general concerns of industry, informal, if not quite haphazard links with individual industrialists are another important mode of access. A similar point is brought out in considering one case study specifically mentioned by Grant and Marsh, namely the passage and implementation of the 1972 Industry Act. These authors note that the CBI was suspicious and surprised when the Bill was published in May, 1972. Subsequently, it opposed unsuccessfully Clause 8, which allowed the government to extend aid to and take equity holdings in private firms outside the development areas, managing to insert only minor amendments and perhaps having some influence over the restricted way in which the government made use of this particular piece of legislation (Grant and Marsh, 1977, pp. 156-168). In the view of Grant and Marsh the passage of the bill and the inclusion of a clause allowing state equity holdings in the face of industrial opposition is best explained by reference to the political and economic context of the time, the collapse of Rolls Royce and UCS, the track record of government lending to these and other industries, the concern about unemployment and the expense of investment in new technologies. In these circumstances the expressed wishes of the CBI were simply overridden; as they put it, "The decisions were political ones." (ibid., p. 168).

This account is a perfectly correct and largely satisfactory explanation for the motives behind the passage of the Bill. However, it is not too churlish to point out that, as it stands, it is in one

respect incomplete. As discussed at some length in Chapter Eight fairly extended hearings before the Trade and Industry Sub-Committee preceded the Industry Act in which testimony from some of the most influential industrialists of the day indicated considerable support for this sort of ad hoc intervention, including the infusion of public money in the form of equity. Indeed, even the CBI evidence was considerably less hostile than might be supposed from the above account, and some of its representatives expressed regret over the demise of the IRC, which had also been officially attacked by the organisation in earlier years. Moreover, the same hearings were the original testing ground for proposals, which emanated from the same group of industrialists, for the sort of institution which later took form in the NEB. In the latter case the CBI also officially shifted round from initial hostility to acceptance of a modified and less interventionist model. A parallel path was followed by the Conservatives as they moved from opposition into government, as well as by Labour in the opposite direction when the initial proposals from the left were toned down to assuage business fears.

The point of this particular example is not that such channels of communication are behind each and every government decision, nor that the latter are simply and solely responsive to the interests of industry or capital in general. Indeed, I have argued throughout this work that there is no necessary link between the needs of capital and government economic policies and that the latter are in the last analysis the result of political processes. However, this position should not be confused with the somewhat qualified pluralism of Grant and Marsh, especially when these authors conclude that their evidence "seems to confirm the autonomy of politics and to indicate that government acts largely independently of business interests (p. 214)." To clarify the differences I will conclude this section with a discussion of the characteristics of industry associations that distinguish them from trade unions and

then consider indirect but no less effective modes of access and influence.

The initial point here is that the organisations of capital and labour are not equivalent in terms of either their influence or status. There exists a fundamental assymmetry in the relative positions of capital and labour in capitalist societies, anchored in juridical and "real" relations at the point of production, which also finds expression in the explicit arena of power, namely the political system. While it is true that the social and political power of both capital and labour rests ultimately on their ability to apply the sanctions of economic obstruction, for labour this capacity depends crucially upon collective organisation. For business on the other hand the primary unit of organisation is the firm or company. As Offe has argued most persuasively,

If a firm decides not to invest and/or not to employ workers, its decision is made autonomously on the level of the individual accumulating unit and in accordance with calculations of individual profitability. If workers decided to strike, they need some mechanism of aggregation and coordination; individual attempts to exercise their "negative" market power would be, in all but the most exceptional cases, negligible in effect and therefore counterproductive from the viewpoint of the individual actor (Offe, 1981, p. 147).

Industrial trade and peak associations are thus not essential for the exercise of the economic power of capital in the same way that unions are for labour. In fact as argued earlier they have been formed historically in the British context for rather particular reasons, typically to co-ordinate labour policy in response to unionisation or to act as a "conspiracy to defraud the public" in the sense of restraining the free play of market forces. In the latter case association is only one avenue for achieving the desired result, namely reducing environmental uncertainty, the other and more favoured route being combination. Trade associations do not generate power that does not already exist but rather function primarily to provide services to their members and articulate the common interests of the latter in the political realm (ibid., and Offe and Wiesenthal, 1981). In fact in the British case

the development of a political role has been dependent upon either the particular circumstances of state intervention in times of war or the deliberate encouragement of governments, as with the creation of the CBI under Labour in 1965.

Thus, it is quite misleading to move from the recognition of the institutional weakness and lack of political influence of the CBI (with which I am in broad if less than total agreement) to the assertion that government policies are "largely independent" of business interests. In the first place, as has been stated often enough in the past, governments of whatever party simply cannot ignore decisions about investment, manning, pay, prices, etc., which are made primarily at the level of the individual company, nor the effects of specific industrial and economic policies on those decisions. In an immediate sense the state exists in a relation of dependence on the private sector for its revenue. More generally governments are bound to be evaluated, whether justly or not, on the performance of a largely private economy as the latter affects the livelihood of the entire society. This condition gives business a rather particular if somewhat diffuse sort of leverage, which is reflected in the very way that policy areas are perceived and presented. Thus, the various policy problems that have exercised postwar governments, strikes, productivity, competitiveness, efficiency, growth, etc., have been constructed within a fairly unmistakably managerial framework. This, however, is not to say that up to recently some constraints within this framework have not favoured subordinate interests, most notably the commitment to full employment. Yet, it is largely the case that if governments have not been terribly successful in promoting British capitalism, it is not for want of trying.

As a final point one should note that there is a more specific sense in which the ultimate economic sanctions of industrial capital have operated as an important point of leverage on government policy.

In "normal times" capital accumulation, while typically a central point of reference of and principle for explaining government economic policy, does not exercise an immediate and pressing influence on the latter. This at least is my interpretation of the kernel of truth in the statement of Grant and Marsh that:

The unions can withdraw the labour of their members, the City can induce a wave of selling in sterling, but the CBI can only criticise the government's policies or perhaps tell its members not to cooperate in their implementation (1977, p. 198).

However, if as in 1974-75 a political and economic conjuncture leads to severe problems of liquidity, the collapse of investment and profitability and the threat of widespread bankruptcy, the political influence of industry and the CBI is rather greatly enhanced. In an admittedly fairly singular crisis of that sort, any government short of a revolutionary regime (and even the latter) is virtually bound to make immediate and significant concessions to industry in order to revive business confidence and prevent economic breakdown, although perhaps one need not capitulate so completely as did Labour under those circumstances. This latter point applies with greater force to situations of financial confidence, but the particular position of the City deserves a separate and closely considered treatment.

The City and the Bank of England

Much of the argument in previous chapters has attempted to substantiate the proposition that financial capital occupies a uniquely important position in Britain. This position has been rooted in the economic relationship with industrial and commercial capital described earlier as one of financial dominance in the sense that it is structured by the practices and priorities of the financial sector. This relationship is likewise reflected in the politics of power at the political

level, which is not to say that there have not been implicit and explicit challenges from the side of industry. However, such moves have not carried a great deal of conviction and have at the least lacked finishing. Industrial capital and its political agencies have been far more ready to accept the political-economic framework set in place by financial interests and to chafe at some of the more pernicious effects than to mount anything like a frontal attack which might well expose their own defence to political onslaughts from a rather different direction. This reluctance is also tied up with the fact that the dominant, multi-national elements of British industry have rather more in common with financial interests than what separates them, especially in comparison to labour. However, here I wish to stipulate more explicitly the specific modes of access and influence that buttress financial dominance in the political sphere, following the direct and indirect distinction applied above to industry and labour.

In terms of access to political parties it is quite obvious as noted earlier that the City has a rather close relationship with the Conservatives in terms of the number of MPs and Cabinet Ministers with financial backgrounds. More important for the present discussion financial interests have generally accorded with the neo-liberal wing of the Tory Party, as the latter's programmatic stance has typically been articulated with the City's priorities: defending the value of money and the procedural norms of fiscal and financial probity. What is more remarkable, however, is the capacity of the financial sector to assert these priorities in the case of governments less obviously sympathetic in terms of their ideologies or professed programmes. In these instances other modes of access and influence have been more important.

In direct terms the relationship between the City and the Bank of England and through it the Treasury is perhaps best described as

one of super-privileged access. The membership of the Court of Directors of the Bank is probably the best single index of the inner circle of the City establishment, although it should be said that the Court is not involved in the Bank's detailed policy formation. The Bank in turn is in constant contact with the Treasury and has a voice on all important economic policy decisions, especially as regards their financial effects. As pointed out by the then Permanent Secretary to the Treasury over a decade ago, Sir Douglas Allen, "Somebody from the Bank of England is on nearly every economic committee. Therefore, there is a view of the Bank of England expressed there (Select Committee on Nationalised Industries, 1970, p. 5)." While the Treasury is of course the higher authority, its relationship with the Bank, as described by the same civil servant, is less one of "control" than "cooperation" in the operation and working out of policy (ibid., p. 5). Moreover, as remarked by Lord Balogh to the same committee, it is a rather one-sided cooperation in that, "There is not the same outward-going situation of Treasury people (let alone Cabinet Ministers) intimately participating in the workings of the Bank; nor is it easy for outsiders ... to know how the Bank opinion is, so to speak, shaped (ibid., p. 193)."

At the same time there are few reasons to quarrel with the views expressed to the same Committee by the then Governor, Sir Leslie O'Brien:

... having been in the City all these years, I think it is fair to claim that the Bank has an understanding of the legitimate interests and needs of City institutions. The knowledge that they have this understanding gives City institutions in general confidence in the Bank so that they know they can go to the Bank with their complaints and troubles and get a fair and understanding hearing. However, that does not mean ... that the Bank stand ready to push vis-à-vis Government in Whitehall City interests without regard to whether the Bank think it is sensible or not ... I am not, then, the representative of the City, but I do represent City interests where I think it is right and proper to do so (ibid., p. 273).

One should note that witnesses from the clearing banks and accepting houses professed satisfaction with this representational role and that, as expressed in a memorandum from the Finance Houses Association:

There are clearly advantages in having the Bank act as spokesman for the City and for individual financial interests since it carries the authority of independence and of a unique breadth of knowledge and experience of the whole financial sector (ibid., p.xlv).

Yet, this is only half of the picture, as the Bank must also act as the arm of the Government, the agency for implementing monetary policy, and likewise exercises a supervisory role as regards financial markets and institutions. In this sense the Bank is more correctly seen as a mediating institution, rather than a simple representative of financial interests. It occupies a dual role to cite Lord O'Brien once again, as the "'bankers' best friend' and arm of authority (ibid., p. 295)." Indeed, the Bank is probably the one British institution that quite closely fits the corporatist mould, although one might say paradoxically that its corporatist relationship with the City has precluded the extension of a similar system to other sectors. However, although its supervisory function has not been a topic of consideration in this dissertation, its typical manifestation has been informal rather than statutory, characterised by "sponsored self-regulation" rather than legal statute. The ambivalence of this position has resulted in some strains in the relations between the Bank and the City in recent years, most notably when the system of sponsored self-regulation came under severe stress during the secondary banking crisis. As discussed in the previous chapter this crisis along with the resulting criticism and specific problems related to entry into the EEC saw the generation of new agencies and the revival of older associations for the direct representation of specific financial interests. Yet, it should not be forgotten that many if not quite all of these were sponsored and/or initiated by the Bank of England. If a number of pressures have led

to the increase in the statutory powers of the Bank in recent years and consequently drawn out the conflicts inherent in the representation/self-regulation relationship, those strains have been contained up to the present within an informal framework that has been only slightly modified. On this point one should note the perhaps too highly favourable assessment of the relationship given more recently by the Accepting Houses Committee and the Committee of London Clearing Bankers (Select Committee on Nationalised Industries, 1976, esp. pp. 51 and 69). At the same time, if the trends towards a more statutory form of supervision are continued much further, then this could well engender a corresponding pattern of direct interest representation (Moran, 1981, and Sargent, 1981).

Looking at the role of the Bank as the agent of the government on matters of monetary policy, several features stand out. First, parallel to the informal system of regulation is the reliance on "moral suasion" as an instrument of qualitative control. The Bank has never issued a directive under the powers of the nationalisation Act of 1946 but has relied instead on the obedience of financial institutions to its qualitative requests. Secondly, while the Governor makes a distinction between his secondary role as "discriminating advocate" of City interests and his primary duty of putting forward "what is in the Bank's view in the national interest and not as the champion of sectional opinion (SCNI, 1970, pp. 274 and 295)", it is equally true that the Bank has maintained a fairly consistent set of priorities at the heart of this perception of the national interest. To cite Lord Balogh once again,

... the lopsidedness of the opinions of the Bank, so far as one can make out from published material, is such that if they prevailed the industrial interests of this country, which after all are the all-important interests of the country as against the financial and banking interests ... would - at any rate as the dice have fallen - turn out to be neglected (ibid., p. 193).

Finally, the Bank's operations in financial markets have not only been structured by a financier's Weltanschauung; they have been largely responsive to the activities and practices of those markets and institutions. Indeed, in recent years it has been deliberate policy to augment the influence of market forces as is evidenced in the adoption of Competition and Credit Control, the floating exchange rate, the shift from Bank rate to MLR and finally the pursuit of monetary targets. These developments in monetary policy can be seen partly as an adaptation to changes in financial institutions and practices and the international movement of financial capital and partly as yet another search for the Holy Grail of the City, an instrument for the self-regulation of markets outside political control. If none of these experiments have proved very successful, their combined effect as indicated in previous chapters has been to increase the leverage that financial markets and institutions exercise against government policy.

This brings me to the final and most important mode of influence, which is precisely the activities and practices of financial markets and institutions. The latter have been a determining force not merely in the conduct of monetary policy noted above, but in the broader areas of fiscal and budgetary policy and the overall economic programmes that different governments have adopted. In this sense it is less accurate to speak of a political business cycle in Britain than a financial political cycle. Although the market in government debt has been a significant force at particular junctures, the foreign exchange markets have proved the most important in this respect. Indeed, the major deflationary packages of the post-war period have corresponded virtually on a one-to-one basis with successive sterling crises. The latter in turn have been occasioned by rapid movements of short-term capital out of sterling rather than the usually cited position in the current balance of payments. The one significant exception that rather proves this rule is the restrictive measures enacted by the present

government upon its election in 1979. Now it is partly misleading to view these short-term capital flows in terms of the City as a political actor. In the first place London is the chief but not the only foreign exchange market where sterling is traded. Secondly, it is not only financial institutions but all large multinational corporations and even wealthy individuals who deal as economic agents on the exchanges. For these reasons it makes more sense to speak of the leverage accorded to financial practices and processes rather than to personify the latter as political actors. Similarly, such agents are not primarily motivated in their dealings by political considerations. Not to put too fine a point on it, they are in it for the money. Yet, at the same time, there is typically an assessment of a government's performance, programme and prospects inherent in the decision to buy and sell a particular asset, whether government bonds or pounds. This is indicated by the usual explanation for an exchange crisis, a collapse in "financial confidence". There is also typically a view as to what must be done to "put the economy right." This assessment, whether such policies are financially "sound" or "prudent" need not be communicated through organised groups in the direct sense implied by the pluralist (or corporatist) perspective. The mere activity of the markets necessitates a response, although it is often backed up by more overt communications to ensure that the government has got the point. The immediacy of a sterling crisis greatly enhances the influence of the Bank of England. Although governments can and sometimes have ignored the advice of the Governor in these circumstances, to do so can have serious negative repercussions on financial confidence, especially if the Bank's disapproval is made public. This advice is taken very seriously, as governments ignore it at their peril, which is perhaps what Sir Harold Wilson meant when he referred to the impact of the Governor's scowl (Wilson Committee, Vol. 4, p. 137).

To conclude this chapter briefly, I have maintained throughout this work that it is primarily these twin features of super-privileged access through the Bank of England and informal influence by way of financial markets that have constituted the main instruments of financial leverage and offer the principle explanation for the political dominance of financial capital in Britain and have consequently acted as a major constraint on the corporatist alternative. These forms of political dominance are evidently bound up with but not reducible to the particular pattern of capitalist development in Britain which has resulted in a related dominant position of the financial sector in the economy as a whole. If the modes of indirect influence via financial processes and practices do not fit in very well with an analytic framework built round the concept of political actors, this indicates the deficiencies of the latter rather more than the insignificance of the former.

FOOTNOTES TO CONCLUSION

¹See various memoranda and evidence to and Reports of the Treasury and Civil Service Committee (February, April and July 1980).

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