

THE WASTING OF THE BRITISH ECONOMY



SIDNEY POLLARD

The Wasting of the British Economy

British Economic Policy 1945 to the
Present

Sidney Pollard



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'The fact is that the only demand which will really help the situation is demand from abroad. An artificial stimulation of the home demand will merely mean encouraging people in this country to take in each other's washing and waste their energy in so doing.' (Treasury Memorandum, B.P. Blackett to Chancellor, 1921)

'Without our trade and our finance we sink to the level of a third-class power. Locarno and the unemployed have an intimate connection.' (Foreign Office Memorandum to Sir Austen Chamberlain, April 1926)

'If I were asked to state in a single word the goal to which economic policy should be directed in Great Britain at the present time, I should answer, Balance; balance in. . .the budget, international payments, between savings and investment; but balance also in other matters, between primary and secondary production, in the labour market, and above all between aggregate demand and aggregate supply in the economic system as a whole. Balance in all departments of economic life is an essential condition of attaining a high level of productivity and well-being.' (H.D. Henderson, Rede Lecture, 1947)

'There is, in my opinion, a perfectly simple and attainable remedy for the recurrent difficulties and embarrassments which have afflicted Britain since the war . . . It consists in transforming the country from a relatively low, to a dynamic high investment economy and thus imparting a decisive bias towards expansion. In my opinion we could achieve this aim by relatively small sacrifice in a relatively short time and we should in this way be able to solve most of our domestic and international problems. So long as this objective is not the primary aim of our policy, crises will recur and will force us to take measures. . .which are bound, in the longer run, to aggravate the problem they are supposed to remedy.' (Mr Thomas Balogh, Evidence to Radcliffe Committee, 1959)

'If I cannot afford to buy food, why should anyone else have it?' (Bill Astbury, Chairman, Greater Manchester Lorry Drivers' Strike Committee, quoted in the Observer, 21 January 1979)

PREFACE

The early appearance of this book has been made possible by a generous grant from the Leverhulme Trust. This has enabled me to enjoy the dedicated, committed and stimulating collaboration of David Moody as Research Assistant. While no doubt too many mistakes still remain, thanks to this aid and assistance there are fewer of them than there otherwise would have been.

After a lifetime of writing learned books, the temptation was great to buttress this volume also with a fortification of sources, statistics and learned footnotes. But for reasons which will become clear to those readers who stay the course and manage to work their way through to the end, my hope has been to reach a wider audience than the purely professional one. In form, therefore, this book has become an uneasy compromise: not enough backing, probably, to satisfy the specialist, and too much to be easily tolerated by the general reader. The aim has been to provide sources for all quotations and all statistics, as well as for all statements and views which may be controversial or not widely known, but for nothing else. One advantage of footnotes is that those who do not want to know their contents can easily omit them.

Many people have given their help and support. The original stimulus came from Nicholas Chapman, then with Associated Business Press, who overcame my first doubts. Others who must be mentioned are: Dr Alan Booth, A.W.P. Fawcett, Dr Gerd Hohorst, Richard Hope, Mrs Beryl Maudling, Prof. R.D.G. Milner, Mrs Irene Wagner, the editor of *Drive* and Secretary and staff of the Society of Motor Manufacturers and Traders. Mrs R.A. Duncan drew the graphs with admirable speed and accuracy. None is in any way responsible for the views put forward, and many would no doubt repudiate them. But my thanks to them are none the less deserved and genuine. Any errors and weaknesses that remain are wholly my own responsibility.

In the nature of things, the events with which this book deals are subject to sudden change, and there are several interesting developments in the offing as the last pages are being typed: in detail, some

points may therefore be out of date when these pages appear in print. The book is, however, meant to be essentially a history of the past thirty years, rather than an immediate tract for the times. Conclusions may, and are intended, to be drawn for the immediate future as well as for the long-term outlook, but the views put forward here ask to be judged by the developments over one generation, rather than those from one week to the next.

S.P.

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1 THE FACTS — AND DO THEY MATTER?

1 Some Data and Some Unpalatable Facts

This book is about economics, and about economic policy. It is part of an incessant debate which has now been going on for many years, and to an outsider it might possibly seem that the debate is too exclusively concerned with one aspect of life only. Money, after all, is not the only thing that matters, and even if it can be shown, as there will be no difficulty in showing, that the British record of economic policy is one unbroken chain of abysmal failure, Britain is still a fine country to live in. Are the media right to occupy themselves so obsessively with economic affairs, and are we all right to judge governments almost solely by their economic performance? Is this not a sign of a poor sense of values?

There is no doubt that man does not live by bread alone, and that the good life does not depend merely on economic success; yet neither should the pervasive effect of economic performance on other spheres of life be underrated. It affects so many things: not only what we can afford to eat or wear, but also the ability of the medical profession to save lives, the chances of poor children to receive the education their talents deserve, the health of the national theatre, and even the tone, the good temper and the humanity of political and public life. It may even be that the British have accepted meekly the plan to become an atomic dustbin for other countries because as a poor nation we cannot afford to be as choosy as others who are vigorously rejecting such a role. So the state of economic health has very wide implications. That must be, in part, a justification for this book.

How do we measure economic success? There are many different things that people want; the same people want different things at different stages of their lives, and perhaps even on different days of the week. Each society will be better at providing some of these things than others, and again this will vary over time. How can we bring all this on to a single denominator?

There is no perfect measure, but over the years economists have been devising methods for bringing together into a single figure the

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total of the output of all goods and services of a society in a given period, usually in one year. Adding up apples and oranges or motor cars and theatrical performances does present logical difficulties, but the rationale behind doing it in money terms is that, at any rate in a free society, each person will lay out his or her money in such a way as to get the most benefit out of their disposable income. If £5 will buy a theatre seat or three gallons of petrol, then this must represent, roughly, equivalent values in society's eyes, or else there would be a rush on one or the other, and the alternative would remain unsold.

There are various ways in which these totals of goods and services can be summed. We may include, or exclude, imports and exports; we may include or exclude the capital used up in the year's work. A commonly preferred measure is Gross National Product (GNP), which will mainly be used here. By dividing it by the number of inhabitants, to obtain GNP per head, we have a rough and ready standard. By using an appropriate exchange rate, we can then compare GNP per head in different countries, provided they are not too far away from each other in culture, and by re-calculating everything in constant prices, we can compare different years for the same country.

How does Britain fare in such comparisons? The statistics confirm the national consciousness of a staggering relative decline, such as would have been considered utterly unbelievable only a little over thirty years ago. At the end of the war, when Britain had emerged as one of the victorious great powers helping to shape the peace, she was still among the richest nations of the world, ahead by far of the war-shattered economies of Europe. On the continent, only the neutrals, Sweden and Switzerland, were better off than Britain, and elsewhere only the United States and Canada. Britain was among the technical leaders, especially in the promising high-technology industries of the future: aircraft, electronics, vehicles. The problem that exercised the statesmen of the day was whether the rest of Europe, even its industrialised parts, would ever be able to come within reach of, let alone catch up with, Britain.

Nor was that lead a temporary fluke, a result of the more destructive effects of the war on the Continent. On the contrary, the British lead in 1950 was fully in line with that of 1938:¹ and even more so with that of earlier decades, when the British position had been firmly in the van of Europe. It had a solid and traditional foundation.

Today the picture is startlingly different. British GNP per head is

little more than half that of her immediate neighbours and of other countries that are, in their build-up, most like Britain (see Table 1.1).

In this category only Italy is still behind Britain, and even there northern industry has higher productivity; it is just the south, with its almost African backwardness, which brings down the average to below the British level. Since the war, Britain has been successively overtaken by Norway, Iceland, Finland, Denmark, Holland, Belgium, West Germany, France, Luxemburg, Austria, Australia, New Zealand and Japan, not to mention a number of oil-producing states.

After having led the world for two hundred years, Britain is no longer counted among the economically most advanced nations of the world. A wide gap separates her from the rest of industrialised Europe. The difference as measured in national product per head between Britain and, say, Germany, is now as wide as the difference between Britain and the continent of Africa.³ One short generation has squandered the inheritance of centuries.

The same point is illustrated graphically in Figure 1.1. It will repay close study. The picture it conveys is that the world has passed Britain by — as if, in a convoy travelling together, all the other ships are sailing serenely on while Britain has gone aground, helplessly

Table 1.1: GNP per Head and GDP^a per Man Hour 1977–9, Nine Countries²

	GNP per Head 1978 (US\$ 000)	GDP per Head 1979 (US\$ 000)	GDP per Man Hour 1977 (USA = 100)
Switzerland	13.32	14.97	65
Sweden	10.53	12.28	79
West Germany	10.43	12.45	84
Belgium	9.81	11.26	94
Netherlands	9.36	10.62	84
France	8.83	10.86	79
Japan	8.53	8.72	52
UK	5.51	7.16	61
Italy	4.18	5.69	68

Note: a. GDP = Gross Domestic Product.

Source: OECD, *Economic Survey* (November 1979); Angus Maddison, 'Long Run Dynamics of Productivity Growth', *Banca Nazionale del Lavoro Quarterly Review*, no. 128 (1979), p. 4.

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watching the rest of the convoy disappearing over the horizon. The captains of the convoy still meet for regular consultation, but while the others represent vessels which are seaworthy and moving towards their destination, the British captain commands a vessel which is little more than a hulk. To drop the metaphor, when British Ministers meet others at their regular conferences, they share the problems of unemployment and business cycles, of currency adjustment and structural change, of defence expenditure and social welfare provisions. Yet these outward similarities hide an underlying fundamental difference: their economies go on growing, providing substantially more resources year by year to deal with it all, while the British economy virtually stagnates. British representatives may behave as if they belonged to the same economic world, but in a very real sense they do not. The British experience is unique.

There used to be talk of a 'German economic miracle', the sheer incredible recovery of Germany out of the depth of the hunger and destruction of her defeat, following the Erhard reforms. Since then the recovery of France has seemed even more miraculous, emerging as it did after a century and a half of stagnation and growing relative backwardness,⁴ out of the humiliations of the war and the blood-letting of Algeria and other costly colonial wars. Thereafter it was the turn of Italy to claim attention, a lop-sided economy, defeated in the war, backward and imitative, beset by insoluble social problems — Italy suddenly showed the fastest growth rate in Europe, to build up a powerful industrial complex with great successes in such key sectors as motor cars and domestic consumer durables. Meanwhile, it was realised that the smaller nations, including even Belgium, an old industrialised country too heavily committed to the dying sectors of coal and steel, had done the same; while Switzerland and Sweden, countries without a post-war reconstruction spurt, had likewise kept up. And beyond Europe, Japan performed the greatest miracle of all. Emerging from total defeat and humiliation, bereft of a vast empire, obliged to feed a densely settled population on insufficient land and lacking in natural resources, she showed year by year rates of growth such as the world had never seen before. Thus she overtook much of Europe — only to be threatened, in turn, by equally 'miraculous' developments in South Korea, Hong Kong, Singapore and elsewhere in the Far East.

Slowly it began to dawn that a 'miracle' which is regularly repeated all round the world is scarcely miraculous, and that there must have been some common or pervasive drive in the world econ-

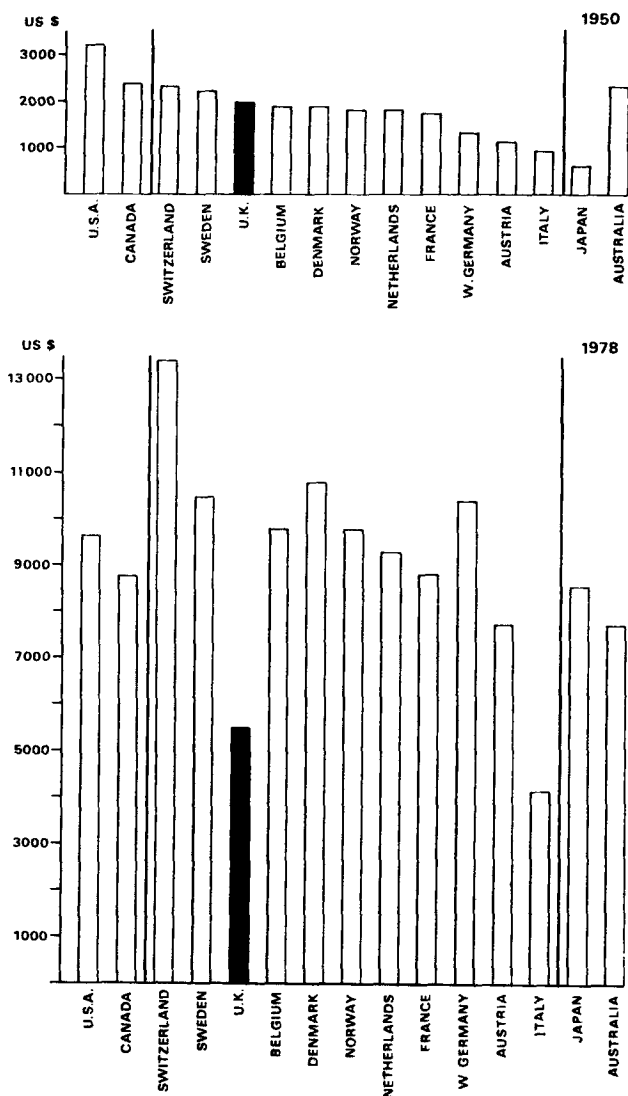


Figure 1.1: Gross National Product *per Capita*, 15 Countries, 1950 and 1978^a

Note: a. 1950: In US \$ at 1970 prices; 1978: In US \$ at current prices.

Source: OECD, International Surveys; A Maddison, 'Phases of Capitalist Development', *Banca Nazionale del Lavoro Quarterly Review* 121 (1977).

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omy to make all these successes possible. In the light of this boom, what then required explanation was the British experience: the only economic 'miracle'⁵ was the British failure to take part in the progress of the rest of the industrialised world. Surely it must have required a powerful and sustained effort, or most unusual circumstances, to prevent the world boom from spilling over into Britain as well.

Averaged out over the period, growth rates of the EEC and similar countries were all around the 4–5 per cent mark, those of the Scandinavians and North Americans, starting from a very much higher absolute level, and therefore closer to the technology frontier, around the 3–4 per cent mark, and the Japanese, coming up from behind, were around the 9–10 per cent mark.⁶ Only the British stayed at 2–3 per cent. Given the power of compound interest rates, it was enough to open up a significant gap.

At annual rates of around 2 per cent compound British economic growth was still faster than at any time in history and led to a widespread rise in prosperity. Nevertheless, measured against what turned out to be possible for others in a competitive, intercommunicating world, it was disappointing to the point of being calamitous. There is no record of any other economic power falling behind at such startling speed.

Within the span of half a lifetime, Britain has descended from the most prosperous major state of Europe to the Western European slum. She is the despair of her friends and the joy of her enemies. She has become the proverbial failure, as all round the Western world an economic proposal has merely to be dubbed as having been tried in Britain to be condemned without further hearing, just as Moscow has been reduced to quoting Britain as the proof that capitalism does not work.

The full extent of this descent may perhaps best be brought home by considering not the advanced rivals in Europe, but the tail-enders. If we continue as we have been doing in 1950–73, Italy will easily have overtaken Britain in the course of the current decade, Spain will have caught up by 1991, Greece by 1987 and Portugal by the year 2008. Since, on the showing of those years, Eastern Europe will also have sailed past Britain, though absolute comparisons are difficult to make with any accuracy in their case, Britain will then, within less than another thirty years, have to settle down to be the poorest country in Europe, with the possible exception of Albania.

If it is felt that the oil crisis has changed all that and we should

instead take the five years 1973–8 as a guide, we find that the year in which Spain overtakes Britain changes to 1995, Greece to 1998, while Portugal will have caught up only in 2053. Lest this long delay before the drop to the bottom should make one too complacent, it is worth noting that on the same simplistic assumptions, Britain will not have reached the *present* German level until 2051, when all those who are making our present economic policy will be but a distant memory.⁷ None of this takes into account the wilful further destruction of British industrial power under Mrs Thatcher's rule.

At this point many readers will rebel. Is not all this too impossibly pessimistic? Surely the country cannot remain so incompetent or so unlucky? Surely, when it comes to it, somebody will do something about it?

Alas, Britain is more than three-quarters of the way there, and no one, neither God nor those who control her economic affairs, has yet seen fit to do anything about it; the latter, indeed, as we shall see, are still on course for speeding her decline. If they managed to bring down a powerful economy such as Britain was in 1946–50, enjoying a position in the technical forefront of the day, possessing a powerful world currency and a strong hold over world markets, driven forward by a high morale after her victory in the war while her competitors were in disarray; then it is child's play to continue the downward drift of the decrepit, out-of-date, demoralised economy, with her poor reputation for reliability and quality, which Britain has since become. Today it is the reversal of our fortunes which would need enormous and exceptional efforts.

If it seems inconceivable that countries like Spain or Greece should overtake Britain, let us look at the example of Austria. For at least two hundred years, as far back as the records will go, the Austrian economy had been operating at 50 per cent or less of the British level of output, and there exists a library of books to explain her backwardness. After her involvement on the losing side in the last war, she became the rowing boat that had to carry four elephants (the occupying armies); and the political compromise under which she was given independence included the convention that the overblown state bureaucracy had to fill each important job with two people, one from each of the two main parties. From the viewpoint of, say, 1950, the idea that Austria might catch up with Britain seemed as ludicrous as the notion of Spain rivalling us now. Yet today Austria has long since overtaken us in total output and manufacturing competence. If it has been possible for a country so far

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behind to pass us with such ease, Spain or Greece will have no difficulty either. Indeed, there is no economy anywhere in the world that will not overtake us, in our weakened state, within thirty or forty years of beginning to industrialise. The industrial belt of Scotland is an example of a formerly leading industrial region which has declined into an area of industrial dereliction, unable in spite of massive regional aid policies to take part fully in the prosperity of her larger neighbour. It is not impossible for Britain as a whole to become the Scotland (if not the Ulster) of Europe.

Yet doubts still remain. Can it be that the GNP figures are wrong, or measure the wrong things? Is there not something they may have left out? It is true that economic welfare depends not only on current output but also on inherited wealth, and here Britain still enjoys some benefits of former prosperity, including a good housing stock. Yet anyone with eyes to see will know that, in spite of it, Britain has dropped a long way behind the other industrialised nations of the Western world.

We can test this general impression by looking at particular sectors where output can be compared directly in actual units or weights. We have chosen two items for comparison, steel and motor vehicles. The choice has been dictated in part by the fact that traditionally these were strong sectors in the British economy, and that they still are, by common consent, both symbols and foundations of modern industrial success. In addition, it is of significance that at the time of writing, the government is actively and savagely *reducing* the size of such segments of both these British industries as happen to be directly under its control.

The picture that emerges is, if anything, even more depressing than that relating to national output as a whole. Whereas in 1950 Britain was far and away the leading producer outside the United States for both products, today she has completely dropped away out of sight: in the case of steel she has been overtaken even by Italy; in motor cars she has been overtaken, unbelievably, even by Spain (see Figures 1.2 and 1.3). It is noteworthy that, just as in the diagram for total output, the rank order of the other countries has not changed very much except for the phenomenal rise of the Japanese economy and the relative decline of the American. The American economy (and, in its tow, the Canadian) has begun to show features altogether remarkably like the British in recent years after following similar economic policies.

Nor can it be argued that steel or motor vehicles were held back in