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Martin Chick

Industrial Policy in Britain since 1970: Changing Values, Assumptions and Mechanisms

Abstract: This article examines the change in the fundamental assumptions underpinning industrial policy from the mid-1970s in Britain. It necessarily contrasts the broadly supply-side concerns of industrial policy from the mid-1970s with the more demand-side concerns of the earlier ‘Golden Age’ period from 1945. Where in the earlier period the emphasis in industrial policy was on capital investment and the role of government in compensating for perceived market inefficiency, from the late 1970s this emphasis shifted to the need to improve the flexibility and quality of supply-side factors allied to a more optimistic view of the ability of the market to secure efficient outcomes.

JEL-Codes: N 1, N 4

Keywords: Industrial policy; fixed capital investment; unemployment; deindustrialisation; trade unions

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1 Introduction

Comparing postwar industrial policy and industrial structure in Britain before and after 1970 throws up some sharp contrasts and some abiding continuities. The main continuity is a concern with productivity, and especially so in manufacturing industry. The main contrast is that of unemployment. Between 1951 and 1975 the level of unemployment was never higher than one million people; from 1976 it was never (ever) to fall below one million. The male unemployment rate of around 17 percent in 1985 compared unfavourably with that of around

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two percent in the 1950s.¹ With the passage of time the thirty years of postwar growth, called Les Trente Glorieuses in France and, covering a slightly shorter period (1945-1973), the Golden Age in the UK, increasingly appear unusual. In 1857-1913 average unemployment in the UK was 4.4 percent of the civilian working population and 10.6 percent in 1920-1938. The 1.9 percent of 1951-1973 increasingly looks odd.² Yet, for many in the 1950s and 1960s Britain, low unemployment, low inflation and steady, if unspectacular, growth became the expected norm.

During the Golden Age, industrial policy concentrated on improving productivity, on encouraging mergers in pursuit of economies of scale and on prioritising manufacturing industry as an important source of technological and productivity advance. Encouraging industrial investment was an important feature of industrial policy and government was seen as having a role to play in reducing uncertainty, raising expectations and thereby inducing higher level of investment from the private sector. The ability of market mechanisms alone to restructure industries in which vested interests and restrictive practices operated was viewed with scepticism and Labour government advisors such as the Hungarian economists Nicholas Kaldor and Thomas Balogh were to the fore in urging the use of government intervention to hasten industrial restructuring and modernisation at a speed faster than that likely to be achieved by the market. In part, it was recognised that restructuring could be achieved by exposing the UK economy to greater international competition, but only at a cost of considerable unemployment. For this reason both Kaldor and Balogh were fearful of what might happen were the UK to join the Common Market, as it eventually did in 1973. In part the rise in unemployment which occurred from the mid-1970s, and the rapid contraction of employment in manufacturing industry, were caused by membership of the Common Market. The postwar protection offered by limited currency convertibility until the start of 1959 and the strong international growth and consumer demand of the 1960s were replaced from 1973 by increasing competition from Common Market competitors and oil price hikes in 1973-4 and 1979-81.

As economic conditions changed, so too did the aims and instruments of policy. Whatever one thinks about how ‘Keynesian’ any Golden Age might have been, there was a significant shift in the role envisaged for the government in

¹ R. Layard/S. Nickell, Unemployment in Britain, in: C. Bean/R. Layard/S. Nickell (Eds.), The Rise in Unemployment, Oxford 1986, pp. 121-169, here p. 121 (the figures are for male unemployment because there is no consistent series for women).
industrial policy. A shift from demand-led to supply-side policies did occur, however vague and general such a characterisation might be considered to be. Public expenditure did not fall, but it became more concerned with making transfer payments to the unemployed than with maintaining public programmes of fixed capital investment. Nationalisation gave way to privatisation, not only of industries but also of council houses. Views of the efficiency of markets changed, with a more optimistic view being taken of their ability to effect the necessary industrial restructuring and to promote productivity. The emphasis in industrial policy shifted from the exogenous to the endogenous with the role of the state being seen as providing the conditions for growth rather than owning or attempting to restructure important sections of the economy. In this paper, the aims, assumptions and mechanisms of industrial policy will be examined, beginning with an analysis of the changes in the rate and incidence of unemployment. It will then move on to consider the changed role envisaged for the market both in reducing unemployment and in restructuring the economy.

2 Deindustrialisation

The size of the British workforce increased throughout the 1970s and in 1994 was over 2.8 million higher than it had been in 1971. Over the 1971-1994 period the number in employment rose by almost one million. However, what was most striking was the rise in the number of unemployed people, and especially the surges in unemployment in 1975-1977 and the almost doubling of unemployment from 1.6 million in 1980 to 3.1 million in 1983. Over the ten years from 1976 to 1986 unemployment climbed from 1.3 million to almost 3.3 million. Unemployment continued to persist at a much higher level than in the Golden Age, almost touching three million again in 1993. By the mid-1970s, unemployment and the nature of ‘deindustrialisation’ primarily in manufacturing were lively topics of debate.3

By the early 1980s, the discussion of deindustrialisation had even intensified as manufacturing unemployment rose further.4 Especially vulnerable were manufacturing export industries, notably metal manufacture (dominated by

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iron and steel) and vehicles. In some cases the increase in unemployment was very striking. While total unemployment increased by just over 70 percent between 1980 and 1981, and by 89 percent in all manufacturing industries, the jumps in metal manufacture (104 percent) and metal goods (121 percent), mechanical engineering (115 percent), and vehicles (160 percent) were eye-catching. As manufacturers of internationally traded goods, these industries were subject to competition in their export and domestic markets. Not only did the two oil price hikes of 1973/4 and 1979/80 raise their energy costs while reducing aggregate demand as oil revenues were saved, but the UK’s accession to the EEC on 1st January 1973 also intensified competition. So too did the appreciation of the exchange rate, moving from $1.80 in 1976 to $2.32 in 1980. Such shocks were considerable for an economy which even in 1970 was exporting more to ‘British countries’ than to the EEC.

Increasing competition in traded goods exposed industries with comparatively lower productivity. UK manufacturing industries like motor vehicles and iron and steel production which employed large workforces in a production process in which economies of scale arising from the use of capital investment were important proved vulnerable. The attainment of just such economies of scale and the modernisation of manufacturing industry had been major concerns of the industrial policy of the Labour governments from 1964 to 1970. This was the most intense period of central technocratic industrial policy but throughout the Golden Age, priority in industrial policy was given to manufacturing, this in part reflecting the primacy accorded to fixed capital investment as a factor of production. This was encouraged by the work of Edward Denison and Robert Solow and the development of a growth accounting approach to evaluating the sources of economic growth. Commonly in growth accounting, among the sources of growth for different economies, the role of capital quality was broadly similar. This reflected the process of technological transfer between economies. Of greater value in accounting for differences in growth rates were the impact of capital quantity and the residual measure of Total Factor Productivity (TFP). Such measures often confirmed the paradoxical dilemma of British economic growth. That, when in the Golden Age growth was at its highest rate in British economic history, so too was it relatively slower compared with faster


growing economies such as France, West Germany and Japan. In the period 1951-73 when complaints of internationally comparative low growth were made, the output growth of 4.4 percent p.a., labour productivity growth of 4.3 percent p.a. and TFP growth of 2.9 percent were all higher than in the 1924-37 period when output grew at 3.2 percent, labour productivity at 1.8 percent and TFP at 1.9 percent. Conversely, when UK growth rates slowed, they rose relative to her international competitors.

### 3 Microeconomics, Inflation and the Labour Market

From 1975, industrial policy shifted away from a demand-side concern with economies of scale and modernisation, to a supply-side concern with promoting flexible, higher-quality conditions for growth. The previous interest in physical capital gave way to a greater interest in the development of human capital as part of a wider move from exogenous to endogenous growth theory. Exogenous growth theory was rooted in assumptions of continual technological progress, while endogenous growth theory which became popular in the 1980s argued that growth arose from decisions and interactions within the entire economic system. From the mid-1970s these changes were accompanied by the displacement of low unemployment by low inflation as the principal objective of macro-economic policy, in the labour market by increased female participation and in industrial relations by a greater willingness to use the law in constraining the activities of trade unions. By 2000 the industrial structure and the composition of the workforce looked very different from that of 1951. In that process of change, fundamental assumptions concerning the role of markets and governments had also been challenged and reassessed. The replacement of low unemployment by low inflation as the principal objective of government economic policy is usually formally dated to Prime Minister James Callaghan’s speech to the Labour Party Conference in Blackpool in 1976. Declaring that the government rejected “unemployment as an economic instrument”, Callaghan nonetheless claimed that:

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7 Broadberry, Performance of Manufacturing, p. 59.
“we used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step. Higher inflation followed by higher unemployment. We have just escaped from the highest rate of inflation this country has known; we have not yet escaped from the consequences: high unemployment. This is the history of the last 20 years”.10

Callaghan’s statement is interesting as a conflation of a series of prevailing economic theories concerning the relationship between unemployment and inflation; it is not that far from Milton Friedman’s view that “what recent British governments have tried to do is to keep unemployment below the natural rate, and to do so they have had to accelerate inflation”.11 The prevailing view for policy purposes had been that of Alban W. Phillips, he of the eponymous curve, and the Phillips Curve was subsequently supported by work from Richard Lipsey, both based at the London School of Economics. In his article in the journal *Economica* in 1957 Phillips noted that for the peacetime years 1861-1956 in the UK, the rate at which the nominal wage level changed was a decreasing function of the rate of unemployment. A rate of unemployment of 2-3 percent seemed to hold the rate of inflation at 2-3 percent; an unemployment rate of 6-8 percent seemed to take inflation to zero. The Phillips Curve was criticised by some economists but so long as Golden Age conditions persisted government was thought to use it as one means of guiding the economy.

Once stagflation appeared, then it became difficult to maintain unthinking adherence to the Phillips Curve and the criticisms began to be listened to. These came from different sources but proved complementary. In part, the critics placed greater emphasis on the microeconomic underpinnings of macroeconomic policy. Some like Edmund Phelps at Columbia University, as in his edited book *Microeconomic Foundations of Employment and Inflation Theory*, emphasised the intertemporal aspect of wage negotiations and the accelerationist implications of trying to hold unemployment down below its equilibrium level.12

There was also a move towards applying rational expectations, as originally developed by John Muth in 1961, with developments around a very micro model by Robert E. Lucas and in an intertemporal one by Thomas J. Sargent. The criticism was that governments which sought to trade off price stability against reduced unemployment ultimately encouraged expectations of regularly increasing wages. Such thinking meshed with Milton Friedman’s idea of there being a Natural Rate of Unemployment (NRU) which itself referred back to Irving Fisher’s 1926 article, ‘A statistical relation between unemployment and price changes’. The NRU was that rate of employment which was consistent with the existing real conditions in the labour market. Friedman was particularly critical of Phillips’s presentation of the demand and supply of labour as being functions of nominal wages, instead of real wages. Friedman saw the rate of wage change as being a function of the unemployment rate plus the expected rate of price inflation, the implicit rationale being that the amount of labour supplied was an increasing function of the expected real value of the nominal wage. The idea that a steady state of unemployment existed within a dynamic general equilibrium system had existed for some time, but it was Friedman who coined the term ‘natural rate’. He likened this to Knut Wicksell’s natural rate of interest, in that both sought to distinguish between the real and monetary forces. In this sense, the natural rate as developed by Friedman and Phelps did not correspond to any particular rate of inflation because there could be no long-run trade-off between inflation and unemployment; there was no long-run money illusion and the long-run Phillips curve was vertical.

A potential danger of the NRU approach was that it would be seen by politicians as absolving them from political responsibility for what was happening to unemployment, that the Natural Rate Hypothesis would convince policy-makers that the rate of unemployment was in the long run, independent of the demand-side policies of the government. In the short-run, downturns might be interpreted as cyclical movements around and below the natural rate, but the

critical issue here was the extent to which short-term cyclical unemployment turned in time into long-term structural unemployment. In this respect, following the fall in public sector capital formation since 1976, the appreciation of the exchange rate and the sharp increase in unemployment since 1975, the Conservatives’ 1980 Medium-Term Financial Strategy (MTFS) was highly contentious. In seeking to create a creditable economic strategy so as to manage inflationary expectations downwards, it also adopted a pro-cyclical policy during a slump. The extent to which stocks nosedived in 1980, 1981 and 1982 was striking. As the economist John Hicks noted, this run down of stocks may in turn have reduced the scope for relying on the multiplier to increase economic activity (see table 1). The concern was with the extent to which a pro-cyclical policy increased cyclical unemployment which mutated in time into structural unemployment. In the 1980s economies with larger decreases in inflation and longer disinflationary periods experienced larger increases in their natural rates of unemployment.16

What became of increasing concern in the 1980s was not simply the level of unemployment but its persistence even as inflation fell. That the level of unemployment settled at three million as the rate of inflation slowed suggested that an effect of any cyclical unemployment had in fact been to add to structural unemployment. Labour which had remained in unemployment had atrophied. Although by the 1980s, marginal tax rates had fallen, union powers had been curtailed, and the benefit wage replacement ratio had been reduced, still the NRU was higher than it had been in the inflationary 1970s. In the comparatively low inflation in Britain of the 1950s and 1960s, there were roughly twice as many vacancies as unemployed; in the 1980s boom, there were twice as many unemployed as vacancies.17 Some of the grander claims made by Milton Friedman in his 1976 Nobel Lecture that it was only by reducing the rate of inflation that unemployment would be lowered in the long-run begged questions as to the length of the long-run and raised questions as to whether the rate of unemployment, if related on the way down to inflation, was now less natural than it

had been. Among economists the NAIRU (Non-Accelerating Inflation Rate of Unemployment) came to be preferred to the NRU, in designating the equilibrium rate of unemployment. Even then, the direction of causation was unclear. Did the unemployment rate cause the NAIRU, rather than vice versa?

**Table 1:** Stock Changes (£ million, current prices).

<table>
<thead>
<tr>
<th>Year</th>
<th>Mining and quarrying</th>
<th>Manufacturing</th>
<th>Electricity, gas and water supply</th>
<th>Wholesale distribution</th>
<th>Retail distribution</th>
<th>Other industries</th>
<th>All industries</th>
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<td>-2</td>
<td>322</td>
<td>35</td>
<td>47</td>
<td>23</td>
<td>36</td>
<td>461</td>
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<td>-48</td>
<td>314</td>
<td>-18</td>
<td>111</td>
<td>-6</td>
<td>29</td>
<td>382</td>
</tr>
<tr>
<td>1971</td>
<td>29</td>
<td>-162</td>
<td>38</td>
<td>154</td>
<td>8</td>
<td>47</td>
<td>114</td>
</tr>
<tr>
<td>1972</td>
<td>-10</td>
<td>-169</td>
<td>1</td>
<td>114</td>
<td>18</td>
<td>71</td>
<td>25</td>
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<tr>
<td>1973</td>
<td>-10</td>
<td>718</td>
<td>-22</td>
<td>312</td>
<td>264</td>
<td>267</td>
<td>1,529</td>
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<tr>
<td>1974</td>
<td>-39</td>
<td>1,086</td>
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<td>1,045</td>
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<tr>
<td>1975</td>
<td>193</td>
<td>-1,063</td>
<td>98</td>
<td>-247</td>
<td>-91</td>
<td>-244</td>
<td>-1,354</td>
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<tr>
<td>1976</td>
<td>-24</td>
<td>396</td>
<td>73</td>
<td>182</td>
<td>271</td>
<td>3</td>
<td>901</td>
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<tr>
<td>1977</td>
<td>26</td>
<td>807</td>
<td>-88</td>
<td>544</td>
<td>51</td>
<td>484</td>
<td>1,824</td>
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<td>1978</td>
<td>112</td>
<td>255</td>
<td>10</td>
<td>560</td>
<td>456</td>
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<tr>
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<td>359</td>
<td>-73</td>
<td>1,061</td>
<td>481</td>
<td>421</td>
<td>2,162</td>
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<tr>
<td>1980</td>
<td>302</td>
<td>-2,546</td>
<td>135</td>
<td>-392</td>
<td>-429</td>
<td>358</td>
<td>-2,572</td>
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<td>1981</td>
<td>-26</td>
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<td>130</td>
<td>-260</td>
<td>190</td>
<td>-687</td>
<td>-2,768</td>
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<td>1982</td>
<td>108</td>
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<td>441</td>
<td>-68</td>
<td>1</td>
<td>185</td>
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<tr>
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<td>432</td>
<td>169</td>
<td>-35</td>
<td>1,003</td>
<td>1,465</td>
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<td>821</td>
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<td>-555</td>
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<td>237</td>
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<td>-93</td>
<td>587</td>
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<td>971</td>
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<td>113</td>
<td>775</td>
<td>346</td>
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<td>2,677</td>
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<tr>
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<td>-103</td>
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<td>-129</td>
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<td>177</td>
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<td>-401</td>
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<td>-4,927</td>
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<tr>
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<td>74</td>
<td>-1,544</td>
<td>-136</td>
<td>96</td>
<td>230</td>
<td>-657</td>
<td>-1,937</td>
</tr>
<tr>
<td>1993</td>
<td>-71</td>
<td>-1,544</td>
<td>-253</td>
<td>843</td>
<td>411</td>
<td>912</td>
<td>329</td>
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<tr>
<td>1994</td>
<td>-210</td>
<td>1,231</td>
<td>-533</td>
<td>511</td>
<td>953</td>
<td>1,352</td>
<td>3,303</td>
</tr>
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</table>


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As the stock of long-term, involuntary unemployed grew, so the supply of available labour was lower than it would otherwise have been. Inasmuch as this represented an inward shift of the labour supply curve, wage rates rose and exceeded the rate of inflation. While recent increases in unemployment would add to the number of short-term unemployed and would have a moderating influence on wage claims, as in time the previously short-term joined the ranks of the long-term, so wage claims would rise again. As such, the equilibrium rate of unemployment rose.¹⁹ Employers themselves appeared to be biased against employing the long-term unemployed and used unemployment duration as a screening device. In contrast to the rational expectations approach of drawing the future back into the present, this view of the labour market emphasised the influence of the past on the present. Phelps noted this, arguing that inasmuch as the existing stock of unemployed weighed on current wage negotiations then there may have been a hysteresis effect in unemployment.²⁰ Hysteresis, a term hailing from the world of electro-magnetic fields and referring to a remaining effect after the original disturbance has been removed, recognises the dependence of a system on both past and current inputs. Accepting the influence of the past on the present also emphasised the sequential, rather than the static nature of economic decision-making and admitted different times into the moment of decision-making.²¹ Or in the words of John Hicks:

“It is not enough to think in terms of time-series. The time-units must be linked together and they must be linked in time, future becoming present, and present becoming past, as time goes on. One must assume that the people in one’s models do not know what is going to happen, and know that they do not know what is going to happen. As in history!”²²

For the unemployed, over time their work experience faded, their job-specific skills decayed and in some cases their former places of work no longer existed. Long-term unemployment was such that by April 1986 of all the male unemployed over the age of 25, over one half had been on the unemployment register

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for more than a year. Over a third had been unemployed for at least two years, and more than a quarter had been unemployed for over three years. The UK had more long-term unemployed (defined as more than a year out of work) than any other EEC country, and accounted for almost 30 percent of all EEC long-term unemployed. Among the unemployed, particular groups stood out. One was the young, especially the under 20s who were more than twice as likely to enter unemployment than any of the over 25 age groups and had a 25 percent chance of entering unemployment in any one year.23 This reflected in part their high degree of job mobility which resulted in turn from their low levels of specific human capital and the relatively low current costs of unemployment. Their age-related duration data also suggested that it was easier for them to find work again. The probability of entering unemployment fell sharply with age, reaching its lowest level in the 40-54 age group before rising again in old age. Expected durations, on the other hand, rose steadily with age, reflecting the increasing difficulty of finding suitable alternative employment as individuals aged. The unmarried had a much higher incidence of unemployment than their married counterparts, and among the married, those with a large number (four or more) of children had very high unemployment rates.24 This may have been because the considerable discrepancy in the level of state-provided family support between those in work and those out of work caused men with large families to prolong their unemployment spells in the search for relatively highly paid work.25 Comparing a year group of married and unmarried men, unmarried men aged 39 had more than a 50 percent higher incidence of unemployment than their married counterparts, the majority of which may be accounted for by the higher duration of the unmarried. Their probability of entry was only 20 percent greater. This seems to indicate either that unmarried individuals were more likely to extend their unemployment spells, perhaps because there was less pressure on them to take up another job, or that prospective employers preferred married men because they regarded them as more reliable. There was some casual evidence in favour of this latter proposition and unmarried men of that age were known to be more likely to suffer from such illnesses as mental instability and alcoholism than their married counterparts.

24 Nickell, Male Unemployment, p. 784.
4 Industrial Conflict

As unemployment rose, so too did the incidence of industrial action (see table 2). Not only was there a higher number of days lost because of stoppages, but the dramatic conflicts stand out in the data. What also stood out was the variety of the strikes. Beginning with the miners’ strikes of 1971/72 and 1974, these started as a straightforward effort to raise wages and to improve working conditions. Miners’ wages had fallen relatively for much of the 1960s as increasing use of oil and the mechanisation of coal-cutting and conveying reduced the industry’s demand for labour. The number of wage-earners employed at collieries had fallen from over 700,000 in 1950-57 to below 300,000 by 1970 while over the same period miners’ weekly earnings fell from first place to sixth in the ranking of manual workers’ wages. Then as world oil prices rose in the 1970s, so too did the new leader of the National Union of Mineworkers (NUM), Joe Gormley, take the chance to push for higher wages even if at the cost of jobs.26 Overtime bans were followed by national strikes in 1972 and 1974, the first since 1926, with a three-day week being instituted by the government from the start of 1974. Calling a general election for the 28th February 1974, the Heath government lost and the incoming Labour government settled with the miners.

In 1979 it was the turn of the Labour government’s re-election campaign to be damaged by the recent memory of a national industrial dispute. This was the 1978-1979 ‘winter of discontent’ which Prime Minister James Callaghan, a son of Portsmouth, was unable to make ‘glorious summer’, limping off instead after defeat in the 3rd May 1979 general election to join Anthony Eden as the second post-war Prime Minister never to have won a general election. The public sector strikes of 1978/79 marked the end of attempts to enforce an incomes policy. Beginning as a social compact in 1974 designed to obtain zero real wage growth through consensus, it mutated into a social contract and a phased incomes and prices policy from July 1975. Phase 1 imposed flat-rate increases, of £6 a week, and an annual upper income limit, of £8,500, beyond which no wage increases were allowed. Phase 2 of the policy, in July 1976, reduced the nominal increase maximum to £4 a week. By 1978, as real wages fell, not least as the exchange rate rose, so the incomes policy began to unravel. The Trade Union Congress (TUC) was unable to get its member unions to continue adhering to the policy and a return to free collective bargaining ensued. The phase 2 government-rec-

Table 2: Working days lost each year through all stoppages in progress, 1970-1982 (United Kingdom, Thousand).

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<thead>
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</thead>
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<tr>
<td>All industries &amp; services</td>
<td>10,980</td>
<td>13,551</td>
<td>23,909</td>
<td>7,197</td>
<td>14,750</td>
<td>6,012</td>
<td>3,284</td>
<td>10,142</td>
<td>9,405</td>
<td>29,474</td>
<td>11,964</td>
<td>4,266</td>
<td>5,313</td>
</tr>
<tr>
<td>Mining &amp; quarrying</td>
<td>1,092</td>
<td>65</td>
<td>10,800</td>
<td>91</td>
<td>5,628</td>
<td>56</td>
<td>78</td>
<td>97</td>
<td>201</td>
<td>128</td>
<td>166</td>
<td>237</td>
<td>374</td>
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<td>Metals, engineering,</td>
<td>4,540</td>
<td>6,035</td>
<td>6,636</td>
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ommended nominal pay increase norm of five per cent was not rescinded, but in the main it was not adhered to.\textsuperscript{27}

Governments’ industrial disputes with the miners in the first decade of the 1970s and with public sector workers towards the end of the decade essentially concerned wages and had considerable effects on the general public whether in electricity blackouts, the three-day week or the unburied bodies and uncollected rubbish of the discontented winter. Some of the most notable instances of industrial action occurred in more newly-nationalised companies like the British Steel Corporation (BSC), British Leyland (BL) and Upper Clyde Shipbuilders (UCS). These may have begun concerning wages but in time came increasingly to concern jobs. These strikes were highly televisual, whether it was workers gathered in the BL car park at Longbridge or Jimmy Reid leading the UCS work-in. The effects on the public were not equivalent to the miners’ and public sector strikes, but the fears of unemployment sometimes in areas of already high unemployment were genuine. Similarly, the miners’ strike of 1984/85 called by the new leader of the NUM, Arthur Scargill in the spring of 1984, concerned jobs,\textsuperscript{28} was highly televisual and did raise questions as to the economic cost and benefits of the rate of run-down of the coal mining industry.\textsuperscript{29}

A conspicuous feature of broad industrial policy in the 1980s concerned the enactment on new legislation affecting trade unions. Evaluating the economic effect of such legislation is difficult.\textsuperscript{30} Higher unemployment, deindustrialisation and shifts in the industrial structure were probably more important in effecting change in industrial relations than legislation. The legislation sought to define and confine the rights of individuals while also threatening union assets. Statistically, days lost through sickness were always more important than those lost in industrial disputes and it is arguable that for all the drama of the strikes in steel and coal in the 1980s they were of little economic significance. The NUM strike of 1984/85 was extremely important for those involved and the regions in


\textsuperscript{28} Carruth/Oswald, Miners’ Wages, pp. 1003-1020.


which they lived. Yet with coal imports available from Poland and Australia, the economic significance of the strike was much less than its political importance. The main disputes, whether at Orgreave Colliery, South Yorkshire or in Nottinghamshire, concerned issues of freedom of movement, and not coal production. The employment and union legislation of the Thatcher governments is interesting as an example of the use of the law to draw the boundaries of the market. While ostensibly protecting individuals directly involved in strikes, it reduced their ability to use their collective market power to further their dispute. High unemployment and deindustrialisation fell on areas of the economy which had traditionally received regional aid. In the 1980s regional aid fell. In one sense this may have reflected an elevated view of the ability of markets to reallocate resources, in this case of surplus labour. It seemed to reflect a changed political attitude towards a level of unemployment higher than that which had existed during the Golden Age.

5 Social Norms, Institutions and Factor Mobility

The context in which labour was shed in the 1970s and 1980s was different from that in the Golden Age, as too were the prominent, often non-British, industrialists. New social norms were reflected in the more direct, less consensual style of South-African Michael Edwardes who from 1977 took on the task of rationalising plants and models to bring BL “Back From The Brink”; John Harvey Jones who slimmed down and broke up ICI after it reported the first loss in its history in the third quarter of 1980; Eddie Shah and Rupert Murdoch (Australian) in newspapers; Graham Day (Canadian) at British Shipbuilders; and Ian MacGregor (American) at British Steel and then at the National Coal Board where he referred to his own workforce as “The Enemy Within”. The change in social norms was also reflected in the altered attitude of government towards high unemployment. As Tony Atkinson noted, the Treasury had abandoned what Samuel Brittan in The Treasury under the Tories 1951-1964, characterised as its behaving like “a simple Pavlovian dog responding to two main stimuli: one is 'a run on the reserves' and the other is '500,000 unemployed.' On the whole (although not invariably), it had been officials who had panicked on the first stimulus, and ministers on the second”, the belief of politicians being that an in-

crease in the unemployment rate from five to ten percent would be at a cost of political popularity.\textsuperscript{33}

That productivity did improve in manufacturing industries was to a considerable extent due to shedding labour. As output stagnated between 1973 and 1979 and employment fell, so labour productivity rose at 0.9 percent p.a., and rose faster at 4.8 percent p.a. between 1979 and 1999 as employment continued to fall.\textsuperscript{34} TFP grew more slowly than labour productivity from the 1970s as the capital stock continued to expand rapidly.\textsuperscript{35} In a sense, this was not solving problems, but stepping away from them and dumping them in the laps of the unemployed. That the run-down of manufacturing (deindustrialisation) was proportionately greater (and faster) in the UK than in other developed economies was potentially damaging to economic growth since the productivity of manufacturing compared with that of Germany and the United States was superior to that of the service sector.\textsuperscript{36} In manufacturing, for the long period since 1870 there was a long-run stationarity of comparative labour productivity levels in manufacturing for both the USA/UK and Germany/UK comparisons, although after World War II faster labour productivity growth in West Germany and the sharp deterioration of British manufacturing productivity performance during the 1970s led to the opening of a substantial productivity gap with Germany by 1979. Improved productivity growth in Britain during the 1980s closed much of that gap, although the United States retained a substantial labour productivity lead over both Germany and Britain especially following the strong productivity performance of US manufacturing during the 1990s which returned the USA/UK comparative labour productivity ratio in manufacturing to its long-run two-to-one level.\textsuperscript{37}

Manufacturing industry was both reduced in its proportionate economic importance and in the importance attached to it in the industrial policies which developed in the 1980s and 1990s. The development of globalisation, the essence of which was the ability of companies to split stages of production between countries, reduced the influence of national governments over individual companies. While in the first instance routine production was moved to low-income countries, there was and remained the possibility that the higher-skill

\textsuperscript{34} Broadberry, Performance of Manufacturing, p. 76.
\textsuperscript{35} Ibid., p. 77.
\textsuperscript{37} Broadberry, Performance of Manufacturing, p. 60.
managerial, design and research work might also be moved there too, or at least
from one developed economy to another. There were also concerns that while
by 1998 more than half of the UK’s exports of services in 1998 were knowledge-
based, in key knowledge-based activities such as research and development
(R&D) the UK still spent something like 45 per cent less than the USA and Japan.
R&D, like skills growth, was viewed as an area of broad capital accumulation
and it was in creating an environment favourable to growth that industrial pol-
icy focussed. The benefits of endogenous rather than exogenous growth were
emphasised and evidence cited that investment in R&D and skills had positive
externalities which might be lacking in physical investment. The shift towards
greater emphasis on human capital necessarily reduced the emphasis on physi-
cal capital investment and technological progress, as was evident in the move-
ment in interest from exogenous to endogenous growth models.

Industrial policy now emphasised more a supply-side perspective with the
rhetoric speaking of the encouragement of long-term research and investment,
the promotion of competitive markets, and the equipping of the labour force
with the requisite skills and aspirations. Certainly the ‘New Labour’ govern-
ment’s industrial policy was focussed on competition policy, technology policy,
and education and training policy. In 1993, the Office of Science and Technol-
ogy published the White Paper entitled, Realising Our Potential: A Strategy for
Science, Engineering and Technology which emphasised the importance of ap-
plied research and the commercialization of the science base. In 1998 was
published the White Paper, Our Competitive Future: Building the Knowledge
Driven Economy which reemphasised the importance to improving productivity
of improving skills, investment, R&D, and innovation. Such ambitions were
not so different from those of Balogh and Kaldor but the means of their desired

38 A. Newall, Structural Change, in: Crafts/Gazeley/Newall, Work and Pay, pp. 35-54; R.
Feenstra/G. Hanson, The Impact of Outsourcing and High-Technology Capital on Wages: Esti-
39 C. Bean/N. Crafts, British Economic Growth since 1945: Relative Decline ......and Renais-
40 N. Crafts, Deindustrialisation and Economic Growth, in: The Economic Journal 106, 1996,
pp. 172-183; N. Oulton/M. O’Mahony, Changing Fortunes: An Industry Study of British and
41 N. Crafts/G. Toniolo, Postwar Growth: An Overview, in: Idem (Eds.), Economic Growth in
42 J. Beath, UK Industrial Policy: Old Tunes on New Instruments?, in: Oxford Review of Eco-

43 Department of Trade and Industry, Our Competitive Future: Benchmarking the Digital
achievement were. The criticism of Kaldor’s prioritisation of manufacturing and the absence of strong econometric evidence in support of Verdoorn’s Law, which posited a positive relationship between the level of output and productivity-enhancing economies of scale and technological improvement, gathered pace in the 1970s and maintained its momentum in the 1980s when ‘catch-up’ explanations of an observed convergence of growth rates became popular.44 In turn, catch-up theory with its emphasis on technological transfer and technological progress as a source of growth was criticised by advocates of endogenous growth theory.45

While it would be unfair of Kaldor to say that he favoured a policy of ‘picking winners’, both he and Balogh in the heyday of industrial policy of the 1964-1970 Wilson governments did prioritise the needs of manufacturing industry. That is no longer à la mode. Indeed rather than ‘picking winners’, the fashionable talk is now of ‘choosing races and placing bets’.46 This less specific approach to industrial policy is concerned more with social capital, although there is still concern with economies of scale such as the agglomeration benefits which accrue as, in the new economic geography, cities increase and obtain productivity gains through knowledge spillovers, better availability of intermediate inputs and the advantage of a deeper labour pool. As this happens, so the transport and communications infrastructure becomes of increasing importance.47 Such an approach to industrial policy emphasises the ‘SimCity’ coordinating systems-based approach which seeks to provide an environment conducive to growth and innovation.48 Important aspects of this new industrial policy remain concerned with allowing time for ideas to be brought to fruition and attempting to

45 See note 8.
reduce the uncertainty surrounding likely rates of return on new investment. In part, the need to provide such assurance and reduce uncertainty is probably greater now than it was in the Golden Age when until the late 1970s, a range of institutions and institutional agreements seemed to provide some assurance that the future would not look so different from the present.49

Such institutional arrangements spanned nationalised monopoly industries, a Bretton Woods system of fixed exchange rates, government subsidies to industry, public housing, hospital and school-building programmes, defence procurement and the apparently beneficial domestic monopsonist role of the National Health Service and the Pharmaceutical Price Regulation Scheme (PPRS) in providing adequate incentives for the development of the UK pharmaceutical industry.50 This was in part through the prices, demand and rate of returns on offer but also in providing a strong research base through the Medical Research Council and the leading research universities. With the periodic public finance pressures from the mid-1970s, the state reduction in direct fixed capital investment, a reduction in industrial subsidies from £ 8.9 billion (1980 prices) in 1970 to £ 0.4bn in 1987/8851 and the opening up of the domestic market to greater international competition, these sources of reduced uncertainty diminished. As ever a balanced judgement requires the trade-offs to be recognised. Greater international competition did cause redundancies in the UK-owned motor vehicle industry and in steel, which were important contributors to the rising unemployment of the late 1970s and early 1980s. However, it is difficult to argue that the steel industry in particular but also the UK-owned motor vehicle industry were performing well. In general, the effective combining of capital and large grouping of labour at sites appears to have been a challenge which managers either ducked, or, more likely, had insufficient incentives to take on.

The changes in the assumptions and mechanisms of industrial policy were also reflected in the privatisation programmes of the Thatcher governments (1979-1990) and the liberalisation of the financial services industry. Privatisation, whether of publicly-owned industries or of publicly-owned (council) hous-

ing was essentially a transfer of assets from public to private ownership. Public ownership of nationalised industries was associated with monopolistic market structures and with insufficient incentives for improving productivity. In housing, private ownership of itself was assumed to improve the incentives to care for property. The prospect of tax-free capital gains on the principal residence, sold at a discount to council tenants, will also have helped. In former nationalised industries, the change of ownership was also intended to be accompanied by the introduction of competition. The natural monopoly component (usually the network) in utility industries such as telecommunications, gas and electricity was to be separated from the rest of the industry and competition encouraged to supply into and sell out from the grid.

Over the period 1979 to 1992 the UK government raised more than £40 billion by share sales, and that is before counting the sale of council houses, arguably the largest single privatisation of them all. Yet it proved easier and more popular to transfer assets than to introduce competition. Opposition from workers and managers in nationalised industries to the loss of their monopoly position was effective, and no nationalised industries were privatised into an effective competitive structure in the first instance. The task of introducing competition into the industries fell to the regulators. To give just one example, British Gas was privatised as a vertically integrated monopoly in 1986 with a monopoly franchise to supply customers taking less than 25,000 therms a year (the franchise limit was reduced to 2,500 therms a year in 1992) at regulated prices. British Gas had complete control of the distribution and transmission system needed to supply other customers. Although British Gas was required to allow other suppliers to use its network, and thereby encourage ‘gas to gas’ competition, these aspirant competitors had to negotiate with British Gas the terms on which gas could be transported across its network.\(^{52}\) In addition, there were strong suspicions that British Gas would compete aggressively on price in areas where it feared competitors might enter. Such entry deterrent behaviour, deterring someone from not doing something, is effective and difficult to monitor. Most new entrants concentrated on selling gas to the new power station market, where they achieved a market share of around 75 percent by March 1991, but they were conspicuous by their comparative absence in other gas mar-

kets. British Gas spent much of its first decade of existence preparing for or being investigated by the Monopolies and Mergers Commission.53

In contrast to the difficulties in introducing competition into former nationalised industry markets, the financial services market proved more amenable to, and keener on, liberalisation. The Thatcher governments removed capital controls, encouraged bank lending to be influenced more by the price (interest rate) of borrowing rather than income-based administrative restrictions applied by banks and building societies. Building societies were also enabled to move away from mutualised status and to become banks. With the government wishing to maintain influence over monetary policy and committed to unrestricted capital markets, options such as joining the Euro were effectively closed off and that was even before consideration was given to the mismatch between this common currency and optimum currency area theory. However, the very mobility of financial capital, and the fundamental temporal nature of the maturity transformation function of banking (in which short-term, liquid deposits are converted into long-term illiquid assets) always carried the risk of banking and liquidity crises occurring in a more market-based global financial system. In contrast to the absence of banking crises during the Bretton Woods period, there were three major banking crises in OECD countries in the 1970s, five in the 1980s and six in the 1990s in France (1994), Italy (1990), Sweden and Finland (1991), Japan (1992) and South Korea (1998).54

Financial deregulation provided opportunities for the growth of large global banks and securitised products such as mortgage-backed securities.55 Investment banks merged to obtain the capital base they needed to increase their transactions in traded products, and de-mutualised building societies, now acting like banks, borrowed increasingly from wholesale financial markets. Believing houses to provide a secure form of collateral, the risk weightings of products like mortgage-backed securities were rated as low, although these securities had been sold on many times over and the mortgages were fundamentally financed by high levels of leveraged borrowing. Whatever the retrospective wisdom, like New York, London became a centre for global banks earn-

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ing an increasing share of their profits from trading rather than the duller activity of traditional banking. The growth of global banking encouraged continuing change in the industrial structure of Britain. Having been just under one-third of GDP in 1970, manufacturing accounted for just over one-tenth by 2012. While manufacturing’s share of GDP fell from 24.6 percent in 1985 to 21.8 percent in 1995, that of financial intermediation and real estate rose from 20.1 percent in 1985 to 26.2 percent in 1995.56

Regionally, the South East of England including London accounted for just over one-third of UK GDP between 1971 and 1995. London and the south-east continued to diverge from the rest of the UK, with only Scotland and Northern Ireland showing signs of convergence. Wales and all other areas of England fell further behind. Yet, from 1979 government investment subsidies fell significantly, partly reflecting the outlook of the Thatcher and successive governments and also in response to European Union concerns that firms compete on an equal footing without subsidies.57 In traditional manufacturing areas where agglomerations of financial, intellectual and economic expertise were not developing to replace former sources of employment, there began to form layers of labour who were not sharing in the benefits of economic growth.

6 Conclusion

This paper has concentrated on the broad assumptions and aspirations underpinning economic and industrial policy since the late 1970s. This is principally because the industrial policy identified with the Golden Age rested on the assumption that there was a role for government in compensating for a market failure to produce desired and timely industrial restructuring and modernisation. In promoting investment and productivity, priority was given to the needs of manufacturing industry and the main aim of macroeconomic policy was the pursuit of low unemployment. When the problem of inflation emerged, one approach favoured was to seek consensual pay agreements with the trade unions. From the mid-1970s, these approaches and assumptions began to fade, and gave way to a macroeconomic policy more concerned with reducing inflation than unemployment and which favoured often highly theoretical market-based approaches to problems of unemployment and deindustrialisation. In unemployment policy, talk of the natural rate of unemployment was increas-

57 C. Wren, Industrial Subsidies: The UK Experience, Basingstoke 1996.
ingly heard. In industrial policy, little was done to slow the rate of deindustrialisation and the MTFS seemed almost purposely designed to accelerate it. Industrial policy became more concerned to increase the incentives for labour mobility and job-seeking, than to offer protection to industries while restructuring and modernisation were attempted. Joining the Common Market and presiding over a rapid appreciation in the exchange rate simply increased the competitive pressures on export industries. So too did the privatisation of nationalised industries like electricity, since it freed them from an obligation to take supplies of domestic coal. That manufacturing industry shrank as quickly as it did was unfortunate as it was, common to popular belief, one of the stronger parts of the UK’s comparative productivity performance, and the labour shed did not immediately find employment again elsewhere. Indeed, the longer it remained unemployed, the less employable it appeared to become. In this context, the specific details of industrial policy fade in importance compared with the fundamentally altered role which was assigned to market mechanisms in the restructuring of British industry.

Bionote

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