A Programme for NATIONAL RECOVERY

This programme is signed by the following:

Lord Aberdare
Lord Barnby
Sir Arthur Bryant
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Foreword

In the early part of 1967 I was approached by a small group of industrialists to act as co-ordinator in an attempt to formulate a programme covering the main essentials for Britain's recovery from the present economic malaise.

Their view was that it was vital for constructive proposals to be put forward as a means of breaking out of the situation, which is serious, not only on purely economic grounds, but also because it has led to serious frustration which can result in a diminution of initiative and enterprise.

Following discussions with a large number of industrialists, economists and others, an initial document was drafted. This in turn was circulated. The response of the participants was very encouraging and many comments and suggestions for additions and amendments were received.

These were considered and the document redrafted and recirculated and the result is now published, signed by a significant number of responsible people, representative of a wide range of interests.

It is hoped that the publication of this document, showing agreement on some vital aspects of policy, will stimulate a wider appreciation of the issues involved and will lead to discussion and comment throughout the political and industrial life of the country.

Those who have signed this document have done so in their individual capacities; this initiative is not associated with any political party or with any particular interest. This is clearly demonstrated by the signatories who have declared their support. It should be added that many others indicated agreement with the programme, but felt that for various reasons they did not wish to become signatories.

Edward Holloway.

20th JULY, 1967.

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It is now a well authenticated fact that the economic performance of the United Kingdom since the end of World War II has been inferior to that of other economically developed countries. As a result this country's ability to play a major role in international affairs and to provide for its people a high standard of living has been severely restricted.

The basis for a high standard of living in Britain and what determines her influence on world affairs is a prosperous and expanding industry. All sections of the community must therefore be prepared to accept the implications of newer thinking, even though measures may have to be taken that are unpleasant to them.

The nation's current economic situation calls for a new spirit of determination by all sections of the community to find and expose anything which is handicapping our development. The necessary steps must be carefully thought out and applied irrespective of sectional bias, party political demarcations, or vested interest, whether of employers or of employees. The urgent need is for a truly national recovery programme to set the country once more on the road to expansion, and this cannot be achieved by a policy of retrenchment such as we have experienced recently, however necessary this may have been in the short term.

RIGHT CLIMATE

For industry to flourish, the first requirement is an economic climate which provides the right incentives to encourage and facilitate increased production. It is, we suggest, the failure to provide such a climate that lies at the root of our problem. This failure stems on the one hand from government policies since the second world war which have caused inflation to erode the value of money, disregarded the importance of incentives and fed the fears of redundancy and unemployment which have led to misuse of manpower. Moreover, inadequate action has been taken to obviate the deep-seated suspicion which exists in many industries between employer and employee and this has led to poor industrial relations and all the evils that this involves.

Technological progress has very largely provided the means to solve the problem of producing more with less effort, thus making potentially possible the steady growth and expansion of the output of wealth, i.e. goods and services of all kinds. Instead of this, however, we have had periods of over-expansion followed by "squeeze", generally referred to as "stop-go". But what real growth has taken place has been substantially vitiated by inflation.

If Britain is to recover from its present economic malaise, governments must give first priority to the question of the overall economic climate, which they alone control.

The two main instruments of economic management are:

1. monetary policy—varying the amount of money available as purchasing power; and
2. fiscal policy—varying the amount of taxation as a means of influencing the level of effective demand.

One of the major causes of the present problems has been mismanagement in these two vital spheres in the period since the war.

Lip service has been given by successive Chancellors to the vital need to stabilise the purchasing power of the £. Yet it has lost two-thirds of its value since 1938 and just over half since 1946. It is of paramount importance that the supply of money, which provides effective demand, expands only at a rate commensurate with the production of real wealth, i.e. goods and services of all kinds. The two conventional controls, the 8 per cent cash ratio and the 30 per cent liquidity ratio at the banks, have both proved completely ineffective as a means of regulating the flow of new money into the economy. Yet the underlying weakness in our economy has been largely due to failures to manage monetary policy effectively.

INFLATION

When inflation begins to get out of hand, governments have had recourse to direct control of bank advances, stopping the growth of money supply. This has the effect of slowing productive capacity thus creating uncertainties and a falling off of demand. If the squeeze is maintained for too long, serious recession threatens. Some regulating mechanism must be found to control the flow of new money into the economy at a realistic rate based on the increased supply of goods and services and in proportion to the varying needs of changing technologies.

In the case of the second instrument—fiscal policy—successive governments have maintained such a high level of taxation that incentives to greater effort have been virtually destroyed. Chancellors have stated repeatedly that taxation has been increased as one means of curing inflation by siphoning off excess purchasing power. But the money collected in taxation has subsequently been spent by governments and this creates demands on resources just as much as if the money was left in people's pockets to spend. In no way can this be said to "siphon off excess purchasing power".

In the last five years, central government expenditure exceeded total income from all sources by £1,309 million. This cumulative deficit was financed by "borrowing". This "borrowing" automatically expands the money supply and thus adds to the inflationary spiral. One method of obviating this would be for the nationalised industries to raise capital directly from the market and not from the tax revenue of the Exchequer; much less should their requirements be met by the creation of new money by the Government.

WATCH-DOG CONTROL

Parliament appears to have given its responsibility to exercise a "watch-dog" control of public expenditure a low priority; consequently government expenditure has increased by some 50 per cent in the past five years.

Had the modest rate of growth of 4 per cent per annum envisaged in the National Plan been achieved by fully utilising the national resources, this would have given us some £1,200 million worth more of goods and services each year. In fact, our rate of growth has been in the region of 1½ per cent each year—an unworthy performance for a country with our knowledge and ability.

The suspicion which is evident in much of the relations between employer and employee is due primarily, though not exclusively, to the problems arising from actual or potential redundancy. This at the moment means unemployment to the working man. It must come to mean the opportunity to retrain without monetary loss. In this way mobility of labour from the overmanned companies, crafts and industries will be speeded up without fear of unemployment. Two results would follow. A substantial rise in productivity and greater willingness by workpeople to forgo restrictive practices and bring their organisations up to date. At the same time managements and unions together must learn to exercise discipline in ensuring that increases in wages and salaries are closely related to increases in productivity. A major and continuous campaign by Government, industry and the unions through all means available will be necessary to achieve this.

THE PROPOSALS

The prime need, if we are to get our economy right, is to concentrate attention on the need for reform in these spheres. Many other problems arise, but the effect of putting these vital aspects right would pave the way to an expansion of production which would make possible many of the other reforms which are necessary.

Hence our proposals in outline are:

1. The recognition of the importance of monetary policy ensuring expansion without inflation.

2. Immediate introduction of effective means to contain Government expenditure (both central and local) on current and capital account to a level of no more than 35 per cent of the G.N.P., recognising that the public sector expenditure could and should increase only in relation to the growth of the private sector. These means should include:

(a) The restoration of power to Parliamentary committees which are responsible for scrutinising public expenditure; and where necessary additional organisations should be set up with power vested in them from Parliament.

(b) The setting up of an independent consultancy organisation to appraise the effectiveness of all Government departments, particularly the cost-effectiveness of equipment and manpower in defence and other services, with a view to a drastic reduction in the number of civil servants and the cost of government.

(c) The initiation of a policy of the gradual reduction of all subsidies and the substitution of direct grants where need can be proved.

3. The adherence to commercial criteria in organising and running state industries with any "social cost" voted separately by Parliament.

4. The provision of incentives at all levels in all spheres to improve output per person, machine and pound sterling invested. One of these major incentives will be the introduction of a modern and equitable tax system. Another will be the provision of national retraining facilities to provide continuity of income for those who must change their employment in the interests of efficiency.

5. The examination, definition, and when necessary elimination of restrictive practices by employer and employee.

6. The provision of a minimum standard of living for the poorest members of the community. Above this level benefits should not be distributed regardless of need. Disincentives to provide for oneself and family should be removed.

7. Recasting of the tax system so that exporters are genuinely helped—even if this means amendments to GATT.

8. Provision of large inducements for saving as against consumption, e.g. issue of tax-free bonds as in U.S.

9. Genuine consultation between Government and industry before far-reaching decisions are taken.

Signed by . . .

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