

A Programme for NATIONAL RECOVERY

THE USE OF RESOURCES IN BRITAIN

Research Paper No. 5

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NATIONAL RECOVERY PROGRAMME

REPORTS PUBLISHED

- No. 1. INFLATION (*out of print*).
- No. 2. EXPANSION WITHOUT INFLATION, 7/6 (*post free*).
- No. 3. BALANCE OF PAYMENTS AND INVISIBLE EARNINGS, 7/6 (*post free*).
- No. 4. TAXATION: THE FINANCING OF PUBLIC EXPENDITURE, 7/6 (*post free*).
- No. 5. THE USE OF RESOURCES IN BRITAIN, 7/6 (*post free*).

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Foreword to the Original Programme

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.



20th JULY, 1967

10 UPPER BERKELEY STREET,
LONDON, W.1.

THE NINE POINTS

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.

A Programme for **NATIONAL RECOVERY**

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.

FOREWORD

This is the fifth and final Research Report to be issued under the auspices of the PROGRAMME FOR NATIONAL RECOVERY. It looks at the use of resources in Britain today, and reaches the conclusion that if we used these fully we could achieve a very much higher rate of growth. The figure suggested is $6\frac{1}{2}$ per cent per annum, which is considered a modest target when the full extent of the under-use of resources is taken into account.

Speaking in the Budget debate on the 10th April, 1970, Mr. Anthony Barber said, "In the final analysis, the raising of the real living standards of the nation can be achieved in only one way, and that is from faster growth in the national output". He went on to show that of 22 nations of the O.E.C.D. countries the United Kingdom came 22nd—at the bottom of the league.

It is the failure to attain a rate of growth comparable to other advanced nations of the world which lies at the heart of our troubles. This Paper, which attempts to set out the reasons for this failure and to suggest ways of overcoming them, is therefore a fitting final contribution for a Programme for National Recovery. It should be read in conjunction with the other four Papers which dealt with Inflation (Nos. 1* and 2), the Balance of Payments (No. 3) and Taxation (No. 4), all of which contribute to a solution of our current economic problems.

We are greatly indebted to a number of industrialists who have helped us both financially and with comments which have been invaluable in the work of drafting the report. Our particular thanks must go to Mr. Frank Broadway who has played an essential role in the formulation of the Paper. The members of the Committee responsible for the programme of research are Patrick de Laszlo, W. A. P. Manser, John Paxton, Antony Vickers, and the under-signed.

The programme of research, begun in the first instance by the National Recovery Programme will, after the publication of this Paper, be carried on by the Economic Research Council.

* Out of print



INTRODUCTION

The object of this Paper is to examine whether it is possible for Britain to make better use of our potential resources by taking greater advantage of the latest production techniques without interfering with stable prices, the freedom of the individual, and the quality of our environment.

All technically advanced countries are faced with the same problem. It is no exaggeration to say that the future prosperity and well-being of many millions of people will depend on finding the right happy solutions.

The task is immense because of deep-seated prejudices. Yet it must be faced. Sir Winston Churchill once declared: "Mankind is faced with two alternatives—on the one hand measureless reward and on the other supreme disaster."

If we are to grasp the "measureless reward" we must bring out into the open much that is at present only half understood or deliberately concealed. We must recognise that the real problems in the second half of the twentieth century arise from the possibility of potential abundance rather than from scarcity. Scientists, engineers and technologists have now made physical abundance possible, yet economists, financial experts and politicians (with some notable exceptions) have been unwilling to face up to this change and have consequently failed to bring to light the real problems which have to be solved.

I A NATION SQUANDERING ITS RESOURCES

The outstanding characteristic of the advanced industrial nations is that they have achieved prosperity through exploiting resources which they themselves have largely created. Whilst an abundance of natural resources has obvious advantages it is not the crucial factor in the differences between the "haves" and the "have-nots". Many of the new West African countries have great natural resources but are still pitifully poor, while Britain with negligible natural resources is wealthy.

What really matters is the effectiveness with which modern "industrial", rather than "natural", resources are exploited. The highest living standard and the fastest economic growth goes to the nations who most effectively exploit and increase their capital stock, and their ability to organise and make use of the education, skill, and effort of their people.

TABLE 1
NUMBER OF WORKERS REQUIRED TO ACHIEVE AMERICAN PER CAPITA OUTPUT

| Country | Industry Group | | | |
|----------------|----------------|-----------|----------------------|--------------------------|
| | Steel | Chemicals | Electrical Equipment | Non Electrical Machinery |
| U.S.A. | 1.0 | 1.0 | 1.0 | 1.0 |
| W. Germany | 1.7 | 2.6 | 3.8 | 3.2 |
| France | 1.6 | 3.0 | 2.6 | 2.3 |
| Italy | 1.2 | 2.4 | 2.3 | 2.4 |
| United Kingdom | 2.3 | 3.4 | 4.2 | 3.5 |

| Country | Industry Group | |
|----------------|----------------|---------------------|
| | Metal Products | Transport Equipment |
| U.S.A. | 1.0 | 1.0 |
| W. Germany | 3.2 | 2.4 |
| France | 3.1 | 2.0 |
| Italy | 4.2 | 2.1 |
| United Kingdom | 2.2 | 3.2 |

Source: "Economist", 1 October, 1966.

It is no doubt a platitude to point out that Britain used to be described as the workshop of the world but since the turn of the century it has lagged behind other countries in exploiting its resources.

Since the turn of the century international observers have commented on the fact that the British performance has been falling behind America and Germany and the unfavourable British trend has been faithfully, if indirectly, chronicled in our record of economic crises, and our declining share of world trade, as well as our relatively slow economic growth.

Nevertheless Britain still has a great reserve of technical and organising ability and an ample supply of skilled and trainable labour. If we are now described as "the sick man of Europe" it is only because we have been squandering these resources on a grand scale.

If we are to recover our position there must be a tremendous improvement in the use of these resources. If we fail, then the present managerial and technological "gaps" will grow to unbridgeable dimensions which will lead to a fall in exports; a rise in imports; and a decline in living standards.

II THE STATISTICS OF WASTE

There is abundant evidence that we use our key resources less effectively than other advanced industrial nations. International statistical comparisons lack precision and it is sometimes difficult to be sure that we are comparing like with like. Nevertheless, after allowing for all such uncertainties, there is overwhelming evidence to show that in almost every aspect of industrial endeavour we are wasting our resources of manpower; management; capital; technology and infrastructure when compared with the most efficient nations.

It is not our purpose to reproduce in all its gloomy detail the mass of evidence which supports this conclusion. The statistical tables which appear on pages 6,8 and 10, simply summarise what is already widely accepted.

Two things really matter. One is that by wasting resources we forego economic growth and in doing so we not only imprison ourselves in a vicious circle of intractable economic problems but we deprive ourselves of the opportunity to solve many of the social problems which result from scarcity. Indeed the principal reason for measuring evidence of our underuse of resources is to try to assess the potential economic growth which we are sacrificing.

The second important reason for this study is to throw light on the reasons for under-using our resources because we believe that if these were better understood, remedies would be found which would enable us to recover our position as a leading industrial nation.

TABLE 2
MANUFACTURING OUTPUT PER MAN HOUR 1963-1969
(Index numbers 1963=100)

| Country | 1965 | 1967 | 1969 ¹ |
|----------------|------|------|-------------------|
| United Kingdom | 110 | 118 | 129 |
| U.S.A. | 107 | 112 | 117 |
| France | 111 | 124 | 149 |
| W. Germany | 113 | 126 | 146 |
| Italy | 122 | 139 | 153 ² |
| Japan | 118 | 151 | 199 |

¹ 2nd quarter, ² 1st quarter.
Source: NIESR.

III USE OF MANPOWER

The best documented international statistics on the use of resources are those relating to productivity of labour. As tables 1, 2 and 3 show, no matter what basis of comparison is used our use of manpower is more wasteful than any other advanced nation and the gap is widening rather than closing.

In overall terms, our Gross Domestic Product per head is less than most of the major industrial nations and it is growing very slowly. Comparisons, on an industry by industry basis (table 2), show that in most cases we use far more manpower to produce any given product than the U.S. and usually we use more than most of the other European countries or Japan. Though our productivity has slowly improved over the years the productivity of our competitors has improved much faster, so our relative position has deteriorated.

The implication of these statistics is that British industry is grossly overmanned for current production. One estimate by a distinguished management consultant puts overmanning at 5 million employees—nearly half the labour force engaged in manufacture. Even if this estimate is an exaggeration, all the statistics indicate that we should either produce far more with the present labour force or produce the same output with much less labour.

TABLE 3

ESTIMATES OF CAPACITY WORKING IN MAJOR BRITISH INDUSTRIES

(per cent of theoretically available capacity)

| Industry: | 1964 | 1966 | 1967 | 1968 | 1969 |
|--------------------------|------|------|------|------|------|
| Motors ¹ | 88 | 68 | 64 | 74 | N/A |
| Chemicals ² | 90.6 | 86.9 | 83 | 86 | 86 |
| Paper/Board ³ | 95 | 94 | 87 | 92 | N/A |

Sources: S.M.M.T.¹ Chemical Age²
British Paper and Board Makers' Association³

IV USE OF CAPITAL

The labour/productivity statistics to which we have referred also indicate that we do not make full use of our existing capital resources. Table 4 shows that many of our major industries have been using their capital resources well below capacity during recent years. It seems likely that if statistics were available they would confirm that most industries are working below the capacity of their capital resources. In terms of profitability British companies achieve a rate of 70 per cent of that in U.S. industry*.

This thesis is confirmed by the evidence of table 4 which shows that Britain achieves a smaller return of G.N.P. from new capital investment than other leading countries.

Although international comparisons of the profitability of capital employed are imprecise because of different accounting practices and price levels, there can be no doubt that our return on capital investment has been well below the return in the U.S. This poor return on capital investment naturally deters further investment and helps to explain our poor performance in recent years when compared with other countries. These statistics suggest that we are not only failing to use our manpower and our capital effectively but that we are failing to take advantage of new production techniques which have proved successful elsewhere.

Many critics believe that the concentration of qualified scientists and engineers in a few industries and in university and

TABLE 4
INTERNATIONAL COMPARISONS OF GROWTH OF GDP AND FIXED INVESTMENT

| Country | (1) Annual real growth in GDP % (1960-67) | (2) Annual growth in gross domestic fixed capital formation % (1960-67) | (3) Apparent pay-off in growth of GDP per 1% increase in fixed capital ((2) — (3)) | (4) Additional output (£) obtained from an extra £100 invested (1955-64) |
|---------------|---|---|---|--|
| Japan | 9.7 | 10.5 | 0.93 | £36 |
| Italy | 4.9 | 2.2 | 2.23 | £26 |
| France | 5.1 | 8.0 | 0.64 | £27 |
| United States | 5.1 | 5.3 | 0.96 | £18 |
| Germany | 4.3 | 4.8 | 0.90 | £26 |
| UK | 3.2 | 5.5 | 0.59 | £20 |

Sources: (1) and (2) UN National Accounts Statistics.
(4) The Economist, 1 October, 1966.

* A. M. Alfred: "The Effective use of Capital". Industrial Educational and Research Foundation.

government work is a mal-distribution of a vital asset which is damaging to our efficiency.

It is essential that highly qualified people should be widely distributed through industry so that the latest techniques may be disseminated and applied. That this relates directly to the most effective use of capital is shown by the following extract from A. M. Alfred's Study *: (i) "there is tremendous scope for further improvement in the physical efficiency of capital stemming from technical advance.

(ii) there is much further to go in economies of scale, recognising that these are important not only in initial capital investment, but also in research and development and marketing; large scale in the latter leading to rationalisation, reductions in production costs, and in some cases doubling or trebling of labour productivity. European companies are still small by U.S.A. standards."

TABLE 5
NATIONAL R+D SPENDING AND GROWTH OF GNP

| Country: | Ratio of total R+D spending to GNP (1962) (U.S.=100) | Military R+D as % of total R+D spending | Growth of GNP % p.a. (1960-1964) |
|----------|--|---|----------------------------------|
| U.S.A. | 100 | 52 | 2.7 |
| U.K. | 151 | 39 | 2.6 |
| France | 124 | 30 | 3.8 |
| Germany | 85 | 15 | 3.5 |

Sources: Brookings Report.
U.N. National Accounts Statistics.

*Op cit

V MANAGEMENT EFFECTIVENESS

The key asset of an advanced nation is management. The quality of management decisions and operational control in each company contributes to the efficient use of the resources of the economy as a whole. If industry is overmanned, or capital investment yields poor returns, or the latest technology is not applied, there is a *prima facie* reason for suspecting that the quality of management is inadequate. Unfortunately, all our statistics suggest inadequate management. These tables must, of course, be interpreted in the light of the special factors which have afflicted our economy during the last decade—"stop-go"; trade union pressures; state intervention; and so on—but the overall trend inescapably suggests lack of managerial skill and lack of dedication.

British economy has the right to benefit from the fertilisation of advanced and efficient management techniques which ought, for example, to bring manning levels close to those of America and to secure the kind of pay-off from new investment which American companies achieve. We should at least be able to equal European standards of manning and profitability.

The improvement in our whole economy which might result from better trained management and more dedicated management cannot be estimated exactly. However, an interesting approach to the problem is the concept of "residual efficiency" advanced by Edward Denison in "Why Growth Rates Differ". * This, in effect, is an attempt to measure the contribution of management to national economic growth of the working population and the transfer of workers from agriculture to industry, etc.

Table 6 sets out Denison's estimate of residual efficiency. Britain is at the bottom of the league. If we could merely raise our residual efficiency to the same level as the French it would result in economic growth of the order of $\frac{1}{4}$ th. Denison's estimates refer to the year 1960, but there is no reason to suppose that Britain has improved her place in the league table since then. Indeed, statistics of productivity growth (tables 3 and 4) suggest that our residual efficiency has fallen further behind.

* Edward Denison: "Why Growth Rates Differ." Brookings Institution, 1964.

TABLE 6
ESTIMATES OF "RESIDUAL EFFICIENCY" (1960)

U.S.A.=100

| Country | Estimated level : |
|-------------|-------------------|
| U.S.A. | 100 |
| France | 77 |
| Germany | 78 |
| Belgium | 74 |
| Denmark | 74 |
| Norway | 74 |
| Italy | 70 |
| Netherlands | 70 |
| U.K. | 66 |

Source : Denison, E.F. "Why growth rates differ", and Brookings Report.

Note : Although this table relates to 1960, up-to-date statistics giving indirect evidence on residual efficiency, such as productivity in manufacturing industry and growth of GNP to resource input do not suggest any relative improvement in Britain's performance.

VI EDUCATION, TRAINING AND RETRAINING

The ability to educate is, of course, one of the vital assets of an advanced industrial nation. A progressive economy requires an ever increasing supply of people with advanced skills as well as those with an academic background capable of absorbing specialised technological or managerial training. By the standards of the more advanced countries we simply do not educate enough people at the higher levels.

The most dramatic comparison is with the U.S. which, after allowing for population differences, has at least 4:1 superiority over Britain in entrants to higher education, and almost a 5:1 superiority in students staying at school until the age of 17. There is also a marked difference in the subjects studied. America has a much higher output of graduate engineers and 10 per cent of all American undergraduates read business studies for which we make little provision at undergraduate level. It seems reasonable to infer that this has contributed to the better performance of America in production engineering and in the development of new products and new managerial techniques.

The output of honours graduates in Britain is relatively low so, in the national interest, they should be used to the greatest advantage. Unfortunately, a smaller proportion of British graduates enter business than any of the other industrial nations. The extreme contrast is Japan where 75 per cent of male graduates go into industry in contrast to only 31 per cent in Britain.

It is more difficult to make international comparisons of skilled craftsmen and, despite frequent complaints by industrialists that craftsmen are in short supply in particular trades, there is little statistical evidence to show that we lag behind Europe or America in training school leavers in craft skills. However, where we may be at a disadvantage is in retraining. Many experts now believe that in the advanced industrial nations it will be necessary for most people to change their craft or learn a major new skill three or four times during their lifetime. In Sweden, four per cent of the working population is under retraining at any one time but in Britain, even allowing for undocumented retraining in private industry and Government establishments, it seems unlikely that we are retraining more than one per cent of our working population.

Multi-craft tradesmen are commonplace in the U.S. and many European countries but are rare in Britain. Of course one reason is Union opposition to the admission to craft skills of people who have

been retrained or who have learned their skill late in life. As a result we are wasting a significant part of our potential skilled labour force. Technical progress and changing patterns of demand must lead to more members for some Trades Unions and fewer for others.

VII THE WASTED POTENTIAL FOR GROWTH

From the statistics which we have quoted and from our brief comments it will be seen that Britain has a massive potential for *economic growth by better use of existing resources*. Even though we cannot hope to reach American standards of efficiency (and hence affluence) until we have greatly increased our qualified manpower and our manufacturing investment, we can at least hope to bring our performance up to the level current in France which would result in economic growth of the following order:

| | Per cent |
|--|----------|
| Better use of labour | 50 |
| Better incremental return on capital investment | 6 |
| Better residual efficiency | 16½ |

These percentages are not additive—they merely indicate the G.N.P. improvement which could result from different but overlapping approaches.

Improvement in "residual efficiency" for example, should embrace improvement on the "return on investment".

In spite of the fact that there are deep-rooted forces hindering the better use of our labour we believe that it should be possible to improve British performance by 15 to 20 per cent during the next five years by such simple devices as more shift work. Improvement in the use of labour would increase the incremental yield in G.N.P. terms on capital investment and so encourage further capital investment.

It is for these reasons that we contend that additional growth of the G.N.P. of the order of 15 to 20 per cent over the next five years would result if there were only a modest improvement in the use of our resources. This growth of around 3½ per cent p.a. would be IN ADDITION to the economic growth which may be expected from increasing world trade; improved technology; and the other forces which alone should cause our GNP to grow at about 3 per cent p.a.

These factors taken together suggest that Britain could easily achieve a growth of 6½ per cent p.a. within a few years—and we repeat that this is a modest target when the full extent of our under-use of resources is taken into account.

The remaining sections of this study are devoted to examining in greater detail the means by which 6½ per cent p.a. growth rate could be achieved.

VIII THE CAUSES OF UNDER-USE

The reasons for under-use of British resources must be identified so that they may be remedied. Naturally there is no single overriding reason for this tendency. Indeed, economic and social problems are seldom simple. Many explanations have been advanced for our traditional tendency to use our resources less effectively than other major nations.

The following factors appear to have had consistent influence:

EMPLOYEE AND PUBLIC ATTITUDES TO INDUSTRY

The persistent mistrust between employees and employers stems from the traumatic experiences of the inter-war years. The bitterness lives on, and stop-go policies have fed the fear that the unemployment of the 1930s may return. This has led to an unreasoning resistance to change which is deeply rooted in the minds of otherwise reasonable men.

While there is no doubt that the recollection of the indignities of unemployment still plays a dominant part in the background of British thinking it is a strange fact that it appears to have been eliminated in Germany where the unemployment of the 1930s was even worse and in the U.S. where unemployment was equally severe.

It seems that there is greater sensitivity to possible redundancy in Britain than in any other major industrial nation with the result that more effort is directed to avoiding any increase in unemployment than to increasing our prosperity. Unfortunately this has contributed to our slow and hesitant economic growth and has made the possibility of widespread redundancy more likely than in those countries who have used their resources more effectively and enjoyed a much faster industrial expansion.

Many foreign commentators have pointed out that the British trades union movement is still organised to deal with the kind of issues which arose in the 1930s rather than the issues of the 1970s which will relate to a hitherto undreamed of capacity for technical and economic expansion.

The recruitment and training of T.U. leaders as well as the movement's reluctance to pay its staff adequately has resulted in exceptionally conservative leadership. Most Trades Union leaders are also nominally committed to a left-wing philosophy which is another factor holding back the full use of resources.

The more successful nations acknowledge the advantages of the market economy and the private enterprise system, but in Britain free-enterprise is subject to more sustained political

attack than in any other major industrial nation of the Western World. As a result British managers tend to be on the defensive and are discouraged from vigorously pursuing the most advanced production techniques which have proved successful elsewhere.

Another aspect of this is the degree to which resources in Britain have been taken out of the private enterprise system and put into nationalised industries. This has weakened the whole spirit of competition and greatly reduced the force of play of market supply and demand.

In addition to maintaining political and fiscal attack on free enterprise the British Labour Party and Trades Unions have persistently campaigned for "social justice". While this was understandable in conditions which prevailed between the wars, and more particularly before 1914, it now merely takes the form of almost reasonless demands for equality at any cost and, in the name of welfare, still more free handouts to everybody irrespective of their needs and incomes.

There may be powerful moral and social arguments for socialist demands for "equality" and "welfare" but there is also a universal demand for greater prosperity which cannot be achieved unless the attention of the whole country is focused on the need for more efficient production. Some recognition of this is shown in the T.U.C. Economic Review, 1970.

Another factor which has had an adverse effect on the attitude of employees is the ease with which the Trades Unions since the war, have secured almost automatic wage increases for their members. If pay increases can be secured by so-called negotiations ending in militancy there is little incentive to improve efficiency.

Most people probably realise that automatic annual wage rises are inflationary and that the extra pay will soon lose its value, but, unfortunately, the failure of the various "incomes policies" have caused Union leaders to continue along this dead-end road. They are unlikely to change until the advantages of a greater prosperity are more widely comprehended.

Increase in demand is the greatest incentive to productive efficiency. Static or falling demand depresses initiative. The few periods of really rapid increase in productivity since the war have occurred during the early stages of expanding demand which has enabled factories to bring under-used capacity into full commission without recruiting additional labour.

Periods of stagnant productivity have coincided with cuts in demand which have caused output to be reduced without a corresponding reduction in the hours worked.

Trades Unions are naturally more willing to co-operate in plans to improve production during periods of rising demand when there is no reason for reducing employment. In times of stagnant demand they are naturally reluctant to co-operate with efforts to improve output for fear that it will lead to redundancy.

LACK OF INCENTIVE

There is no fundamental reason why we should not use our resources as efficiently as other countries provided we can create a climate in which investors, managers, and the labour force can expect to benefit by doing so. It is, therefore, reasonable to conclude that we have failed to make the effort because the incentive is lacking.

Executives in both the public and private sectors complain of lack of incentive. The main grievance is the excessive tax imposed on higher incomes, particularly those at the very top who now cannot hope to achieve a take-home salary exceeding £10,000 a year.* This limitation has had the effect of depressing salaries at all levels with the result that the salary of any British executive, at any level, in any job, is lower than in most other countries. This depressing effect on salaries has also reduced the differential between grades and so reduced the incentive to seek promotion.

The lack of incentive which is inherent in our present income tax and surtax rates has been made still worse by the new tax burdens such as capital gains tax; penalties for "stock options" and "close company" regulations. The traditional incentive, which inspired exceptional individuals to make exceptional efforts and to take exceptional risks, was the chance to build up a substantial personal fortune. By reducing the opportunity to make a fortune we have merely reduced the vital incentive.

Another evil consequence of the present tax system, which is seldom mentioned but which, unfortunately contributes to the universal apathy, is the decline in integrity—or, to be more forthright, the decline in honesty—in all levels of the community. Direct taxes have become so intolerable that they not only discourage the individual from making an extra effort to earn more but they divert his effort into seeking ways and means of procuring tax free income.

The improper exploitation of "expense accounts" has been given wide publicity but too little has been said about the even more dangerous tendency for people to earn a bit of untaxed

money by secretly doing some secondary job or by pilfering from their employers.

Those who know what is going on in the docks and the railways, or what occurred when the Q.E. II was being fitted out, will be well aware of this ugly phenomenon, but it is not generally appreciated how widespread this tendency has become or how difficult it is to restrain.

In brief, excessive direct taxation is turning Britain, which used to be renowned for its honesty, into a nation of petty pilferers.

The tax "reforms" which have imposed special penalties on "unearned incomes" have not only reduced the incentive to invest in British industry but have also caused the investor to abandon the influence which he could exert on Companies to demand that its resources should be used more efficiently. The same apathy has spread to the public sector.

The great improvement in the living standards of manual workers during this century has been the result of better use of resources, so it should logically be in the interest of organised labour to co-operate in any device which will accelerate the better use of resources.

INEFFICIENT DISTRIBUTION OF RESOURCES

The manner in which the nation's total resources are distributed between different industries, and between the public and the private sectors, also has direct bearing on efficiency. This maldistribution of our total resources is very apparent in Britain where we have had an excessive concentration of both labour and capital in traditional and declining industries such as cotton; textiles; coal and railways, though some effort has been made to remedy this situation.

Our competitors have shifted their resources out of declining industries into those which are expanding—for example, Holland plans to phase out its coal mines by 1972—but successive British Governments have gone out of their way to delay such shifts by propping up the less rewarding industries with subsidies and other protective devices.

It has been suggested that we try to do too much with our limited resources and that we should concentrate our resources by greater specialisation. It is certainly true that in Britain it takes about twice as long as it does in the U.S. to bring an innovation to full commercial fruition and this does suggest that our resources may be too thinly spread.

* See Treasure, J. A. P. "Company Policy and Taxation". Industrial Educational and Research Foundation.

Much has been written by economic and political theorists in recent years about the distribution of resources between different sectors of the economy. In particular there has lately been a great deal of theorising about the alleged mal-distribution of our resources between manufacturing and service industries. Such theories have been used to justify the "selective employment tax" and other measures of Government discrimination. There has naturally also been controversy about the distribution of resources between the public and private sectors.

Economic theory has a long way to go before it can provide us with a reliable indication of the optimal distribution of resources and some choices will always have to be political. However, contrary to many of the arguments which have recently been popular, it is evident that industry is actually employing too great, rather than too small, a share of our resources in manufacture, having regard to the potential output if modern technology were fully used, but, on the other hand, too small a part of new capital formation has been applied to industry.

It would appear that too large a share of our capital resources has been transferred to the public sector where existing capital assets have not been used to the best advantage.

MANAGEMENT AND ADMINISTRATIVE RESOURCES

If we are using our manpower and capital resources wastfully it is natural to ask whether we lack, or are missapplying management ability. This, of course, is difficult to measure. One approach has been pioneered by Professor Edward Denison in his concept of "residual efficiency".

In brief, this concept seeks to measure the addition to the national economic growth which could be expected to result from this factor after due weight has been given to the output which can be expected from a growth in the Labour force or any increase in capital employed. The concept therefore provides a crude measure of such factors as managerial efficiency and the use of advanced technology. As will be seen from table 6 Britain figures badly in Denison's estimates.

IX BALANCE OF PAYMENTS CONSTRAINTS

The prevailing view that rapid economic growth may impose an intolerable strain on the balance of payments has led to periods when growth has been inhibited by severe restraints of demand intended to "right" the balance of payments. The National Recovery Programme (Research Papers Nos: 1, 2 and 3) has shown that this diagnosis is incorrect and the "cure" harmful.

The reckless dissipation of our reserves, the headlong rise in our indebtedness, our unenviable and false reputation as a "persistent debtor" followed by the undertakings we have been obliged to give to the I.M.F. have made it necessary for the Labour Government to impose a whole range of constraints on our economic growth.

The recent recovery in our balance of payments has at least provided a little more room for manoeuvre.

STABILITY AND CONFIDENCE

The misconceived measures designed to remedy our balance of payments have discouraged the better use of our resources.

"Stop-go" and emergency crisis measures have caused the private sector to hold back capital investment and to economise on revenue investment. This has made it more difficult to take advantage of new technical possibilities. The lack of confidence and the discouraging atmosphere created by economic instability and soaring taxation have been aggravated by feverish measures of "reform" and State intervention.

Our insignificant industrial growth accompanied by the slow creation of new jobs has caused the Trades Unions to confine their efforts to holding on to those advantages which they have already secured and so, in spite of the pressure of income policies, there has been little success in negotiating away restrictive practices and over-manning.

In spite of "Nil norms" and "severe restraints" earnings have continued to rise on an inflationary scale through the mechanism of the "annual round" and the "wage drift" with the result that we are now faced with another wage explosion without any accompanying productivity explosion.

All this has done untold harm to our economy, but it is a natural response to the seemingly unending succession of restrictions and State interventions. Our most urgent need is a period of assured stability free from "tough budgets", mini-budgets,

"touches on the tiller", "fine tuning", and all the other manifestations of Government pretensions to be able to manage the economy.

THE BASIC CAUSE

All the factors we have considered have contributed to the underuse of our resources and there are, of course, many others as well. However, we believe that the main chain of forces which has caused our troubles has been along the following lines:

1. **Mistaken fiscal and economic policies and constant Government interference with the functioning of the market in its endeavour to manage the economy, have led to**
2. **Inadequate and fluctuating demand for goods and services which has led to**
3. **Inadequate incentive at all levels which has resulted in**
4. **Social and psychological attitudes to work and redundancy which have clogged the wheels of progress.**

This chain of events would tend to be self-liquidating if once we could achieve a substantial increase in prosperity by better use of our resources.

X LONG TERM REMEDIES

The home demand for goods and services must be allowed to increase in order to provide a steady incentive for the fuller use of our resources. Concurrently, overseas demand for our goods and services would be stimulated because we would be in a position to market them at more competitive prices and this would add to the demand and give still further incentive to use our resources more effectively.

Applied technology will make it possible to supply all the manufactured goods and many of the services we require, both for home and for export, with much less human effort per unit than is now required*. Indeed, we should be preparing for a shorter working week which this will make possible.

At the same time there should be a major shift of resources, particularly home resources, into those services where the human element will always play a larger part than capital equipment. For example, education; health service; leisure services; the rebuilding of our cities; the improvement of our roads; more deep water ports; and the prevention of pollution will require many hours of human effort for many years to come.

It will be necessary to press for a major reform of the world monetary system so as to keep international liquidity in line with world economic growth and avoid the flow of money from one country to another in search of marginally better interest rates or because of the fears of devaluation. If the international monetary system could be brought under more effective control it would benefit all the western countries but, more particularly, Britain because we have acted as one of the two principal bankers to the world and in consequence our internal economy has suffered from the effects of international monetary movements which have little to do with our internal economy.

Short term deficits on the balance of payments of any country should be treated as temporary deviations from the long-term trend, instead of being regarded as a major crisis which must be remedied by drastic measures which have, in the past, so often arrested internal demand.

All these broad objectives are within our reach provided the more advanced industrial nations are willing to co-operate and to conduct their internal affairs more wisely. They would enable us to

* See Appendix I as an illustration.

move into an era in which we could all enjoy infinitely greater material prosperity and greater leisure.

There could be a real change in the quality of life in the sense that we could concentrate on the search for constructive enjoyment rather than be dominated by anxiety as we are today. This is the prospect for those nations which succeed in exploiting their labour and capital resources effectively. We could easily be one of the leaders if only we begin to use our resources more effectively, but if we fail to keep up with our competitors the outlook is dark because we will soon fall far behind and it will then become more difficult to remedy the situation.

BRIDGING THE GAP

"The Sunlit Upland" of vast material affluence and greater leisure which we have described is not just a dream of some distant golden age. It could be achieved by the advanced industrial nations within the next 20 years or so. On present trends countries like the U.S., Japan and Germany should shortly reach the target but we shall certainly be left out in the cold unless we start making a concerted effort at once.

The efficient use of resources depends on innumerable individual and corporate decisions. We have been less successful than the other advanced industrial countries because so many of our decisions are influenced by forces which intentionally or unintentionally militate against efficiency. We have already indicated that in our view many of these forces are psychological or ideological. Too few of our decisions are influenced by the single objective of improving the use of our resources because it is not generally held to be desirable. Moreover, the Government often intervenes to divert us from this objective.

To put the matter in another way—many individuals, companies and Trades Unions are so dominated by the fear of change and confused about their objectives that they tend to opt for preserving the status quo which they regard as tolerable. This toleration of our present condition, which is little more than lack of ambition, undermines the incentive to improve our lot.

The Company which can earn adequate but unexciting profits with little effort; the manager who works for an unenterprising Board of Directors; and the Trade Union leader who can get an annual wage rise for his members without any intention of improving performance are all in the same category.

THE CLIMATE OF OPINION

It is the climate of opinion; the lack of enthusiasm, and almost the lack of hope, which hangs like a dark cloud over the British economy. The exhortations of politicians, economists, and journalists, as well as official and unofficial bodies, over the past twenty-five years have failed to make us pursue the rewards of greater productivity.

The most probable reason for this climate of opinion is that hitherto the economy appears to have been unable to deliver the goods in the terms of sustained real growth. The public has become suspicious of economic theories and political promises which never seem to work. Our morale has sunk so low that it will take at least five years of rapid economic growth, and wide distribution of the rewards of growth, before there is likely to be any improvement in the general attitude of the public.

Though the task is difficult, we should not abandon hope. On the contrary, we should make a greater effort to explain and to educate and to supply the leadership necessary to bring about the change.

Industrial leaders in both the public and private sectors have, in the past, been reluctant to explain the targets at which they are aiming and the prizes which can be won by change. They should give up being on the defensive. They spend around £600 million a year on publicising the goods and services which they provide but only a trivial part of this is applied to influencing the climate of opinion by explaining the possibilities which are within our reach if only we will combine to work for them.

The academic world has not been helpful. It has created a climate of opinion which is hostile to the efficient operation of industry and has deterred able people from entering industry, so the nation has suffered and in consequence the prospect of improving the standard of education in Britain has also suffered.

In making the point that an improved climate of opinion is essential if we are to use our resources better, we recognise that explanation and exhortation cannot by itself bring about a change. The real impact will only come from practical measures designed to give much greater incentive to the pursuit of efficiency in every possible field.

THE NEED FOR INCENTIVE

It is essential that everybody should be stimulated by greater

incentive if we want them to co-operate in the effort which will be required to use our resources more effectively.

Unfortunately, we tend to discourage incentives, and a great deal of effort is wasted in attempts to prove that existing incentives for shareholders, businessmen, and employees are not much less than those in other countries. These arguments naturally centre around after-taxed incomes and it is easy to suggest that the tax "take" in Britain (with the exception of a few luckless people in the top surtax brackets) is not very different from other countries.

We believe that this attitude to incentives is sterile and unrewarding. It does not matter whether the net rewards in Britain are similar to those in other countries. What matters is whether these rewards provide effective stimulation, and it is only too evident that there is not sufficient incentive in Britain to secure the concerted effort which is required to achieve constructive change.

If it be true that the net rewards in Britain are not very different from those of other countries, the only conclusion is that the disincentives must be greater because it is clear that the present level of reward does not produce the same degree of enthusiastic effort which is apparent in more thrusting countries.

We should judge incentives by the results they achieve. Since the present level of reward does not provide the incentive then the level of rewards must be increased. There is no reason to recoil from this proposition. Our psychology is not so very different from that of citizens of other countries, though perhaps British traditions and values are such that it requires the prospect of dramatically high reward to stimulate major change. However, it is equally likely that generations of political controversy have discouraged belief in the inherent benefits of efficiency and, in consequence, exceptionally large benefits may be necessary to stimulate effective action.

If this is the case we must allow much greater rewards to those who achieve significant success in making greater use of our resources. The initiators of improvements tend to be the owners or managers of businesses. If they are to be encouraged to seek higher performance then success must be allowed to earn conspicuously higher rewards than the average. Successful companies must be allowed to earn higher profits and retain or distribute a higher proportion of those profits. Managers employed by successful companies must be allowed to take home a greater part of the additional wealth which they help to create. We now arrange our affairs so that a man who makes an extra £1 million for his Company can take home only another £100 or so a year after tax; therefore,

we have only ourselves to blame if our more able managers fall behind the rest of the world in pursuing efficiency.

The new attitude which we are advocating is, of course, in conflict with the egalitarian ideals which have dominated British thinking for more than two generations but we contend that egalitarianism is out of date because it discourages efficiency and so discourages the creation of additional wealth for which, in the last resort, we are all seeking.

Companies can improve incentives for their employees by paying bonuses or performance-related salaries, but our tax system takes the edge off such incentives. The situation could easily be improved by simply raising the starting point for surtax or by lowering the absurdly high top level of surtax. The revenue which the State would lose would be trivial. However, a much greater effort could be achieved by recasting the whole system of direct taxation.

It is not enough merely to increase the rewards of top management. If the broad mass of the working population is to commit itself whole-heartedly to the pursuit of higher productivity small adjustments of our present tax system will not provide the kind of incentive which is required.

If tax changes are to play a significant part in putting new life into the working population it will have to be along more radical lines.

We must somehow overcome the relative indifference of most Trades Unions to incentive and productivity deals.

The incentive to collaborate in seeking greater efficiency would obviously be greatly enhanced if we could put an end to automatic wage rises. The present Government made a courageous attempt to move in this direction but it was doomed to fail.

We believe that further discussion aimed at a new legal framework for industrial negotiations would be beneficial and that it will not be long before the public as well as a high proportion of Trades Unionists themselves will insist upon it, but legislation of this kind will not, of itself, achieve the result for which we all hope.

All employers and especially the biggest employer—the Government—will have to take a tougher line and resist demands for wage increases which are not related to performance and, at the same time, they will have to show much greater generosity in distributing the fruits of higher performance to those who make a real contribution.

If managements really exert themselves, and employees begin to co-operate, and if the headlong advance of taxation can be

halted, the "cake" which industry will produce, to be divided up among all concerned, will rapidly grow in size.

In other countries management and unions have not found it difficult to reach agreement on the manner in which the cake should be shared so as to provide effective incentive for all those who have contributed. Wherever possible, incentives should be spelled out in cash rewards to be distributed as soon as certain targets have been reached.

One of the advantages of using resources more effectively is that the quality of the work required from the labour force is steadily upgraded. Better use of our resources will require the retraining of large numbers of operators so that they may undertake more skilled, more responsible, and better paid jobs. This, in turn, will lead to a demand for technicians and more instructors, and so open up still more opportunities for promotion from the shop floor.

An obvious difficulty of incentives is the fact that much of the working population is engaged on tasks where responsibility and performance cannot easily be measured or where there are no restrictive practices to be traded away in negotiations.

For this reason a more determined effort must be made to devise performance-related payment schemes. It is not difficult for example, to switch clerical operations to efficiency-based payment through the application of techniques like Variable Factor Programming or Clerical Working Improvement Programmes. As soon as the majority of the working population has switched over to performance-based payments then the rest of the labour force can expect to share in the national rewards which will flow from better use of resources through the operation of the normal labour market forces.

INCREASE OF DEMAND

Demand for goods and services gives the initial stimulus to the better use of resources. We need a period of steadily increasing demand in order to provide the incentive for technical innovation and capital investment which must be planned on a long-term basis. Increasing demand is also essential if a more efficient use of labour without, at the same time, causing unemployment, is to be achieved.

This idea of increasing personal consumption is in conflict with modern orthodox British thinking which alleges that balance of payments troubles are caused by greedy overconsumption which must, therefore, be restrained, and it argues that the only desirable form of growth is that which is "export led". We examined

this argument in Research Studies Nos. 1 and 3, in which we showed that whilst it is historically true that an increase in home demand has resulted in an immediate rise in imports, these imports are invariably followed within a year or two by a corresponding rise in exports.

We believe that much of the increasing demand in future will tend to be for services rather than for consumer goods—e.g. better roads and capital works of community value. This kind of demand is characteristic of advanced industrial countries, and from every point of view is desirable because it improves the quality of life. It is also socially necessary because advanced technology and improved management will make it possible to produce more goods with fewer people, and those displaced from manufacturing must find employment in service occupations. Rising incomes in the service sector would stimulate the demand for goods.

The attempt by Government to curb the growth of service industries and to shift employees from services to manufacturing is therefore completely mistaken.

Insofar as Government can influence the pattern of demand there is a strong case for urging that the expansion of demand should be led by a growth in private enterprise services which require negligible imports but generate considerable capital investment—some of it in the field of advanced technology such as computer systems, automated warehousing and containers.

Free enterprise services could quickly be stimulated by reducing fiscal discrimination—particularly restrictions on investment grants.

Above all, if only our money supply can be effectively regulated so as to avoid inflation and deflation we can be confident that demand will grow.

Britain seems to be more involved than most other countries in the apparent conflict between "individual wants" and "community wants". Individual wants are the goods and services which people buy for themselves. They are largely supplied by free enterprise and allow each individual to spend his own money and make his own choice. The process is agreeable and any increase in real incomes which will enable the individual to satisfy more of his wants will produce a sense of well-being.

Most community wants in Britain are supplied by the State or Local Authorities: the health service; education; roads; public transport; and a vast range of other services including rented houses have almost become a State monopoly. The user is given the minimum choice and is obliged to pay by the hated process of

rising taxation. This produces a conflict between a growing demand for community wants and a reluctance to pay for them, which results in innumerable uneasy compromises. As a consequence, the services provided are generally inferior in both quantity and quality to what the public needs and can afford.

This is the paradox of "private affluence" and "public squalor" dramatised by Galbraith. It is largely unnecessary and is certainly not inherent in a market economy as many self-styled "progressives" claim.

The paradox arises from an uncritically accepted assumption that only the Authorities can properly provide for community wants, and the only way to pay for them is by open or disguised taxation without any opportunity to opt out (see National Recovery Programme Report No. 4: Taxation—The Financing of Public Expenditure). Yet the argument that the Authorities must provide community wants is only true in a very few cases. For example, sewage and fire brigades. The majority of community services can be provided by the private sector, and where there is an alternative it is notable that private facilities survive in spite of seemingly hopeless odds because the public likes a choice. Thus, there is a growing demand for private schools, private insurance schemes, and private medical treatment.

If individuals were allowed to contract out of compulsory contributions to State Education and Health service and to make their own private arrangements there can be little doubt that the demand for private facilities would increase still more. In addition, there is ample overseas evidence to show that if private enterprise were allowed to build toll motorways the public would be only too glad to patronise them. We also believe that the nation would soon get more houses for renting and more urban renewal which is so badly required if the absurd restrictions on the private landlord were removed.

The supply of "community goods" must be encouraged to grow at least as rapidly as the supply of "individual goods" if we are to improve the quality of life and use our resources to the full, but this is unlikely if the supply of community goods remains a State monopoly.

To restore the advantages of choice, and the enthusiasm to offer the consumer greater choice, private enterprise must be allowed to take over the supply of many community wants. This does not mean that the poor or the unfortunate need suffer, because the State can give direct assistance to those in need by "negative income tax" or any other appropriate device, but we

should subsidise the individual in need rather than community service as a whole.

One of the major features of community services is that they usually involve great capital investment, which some people suggest could not be supplied by private enterprise, but private enterprise has found no difficulty in providing the capital for the great oil companies, shipping lines, and factories, so there is no reason to suppose that private enterprise would be unable to finance education, medical care, housing, radio programmes, or trunk roads, and give the public greater freedom of choice and at the same time permit them to earn a reasonable profit on the investment.

This will still leave plenty of community services which might be more appropriately undertaken by the public sector, for example, flood control schemes and reclamation of land, etc., but such public works should be part of a long-term programme in the five-year forward look which has now been established. We need to avoid, so far as possible, the political arguments and panic cuts in expenditure which have so often occurred in the past.

A steady growth in the supply of community goods and services would provide new opportunities for those rendered redundant by modernising the supply of consumer or "individual" goods and services.

XI BALANCE OF PAYMENTS

Public discussion of our economic problems has been bedevilled by the mistaken belief that we cannot afford to expand as fast as other nations lest we run into a balance of payments crisis.

We have examined the balance of payments problem in earlier studies and we have shown that the facts do not support this thesis. Britain can sustain any desired growth rate provided the growth is *real*—that is to say, brought about by better use of existing resources and the creation of new resources and not by inflation.

In previous papers we have set out the policies which should be followed in order to maintain balance of payments stability. They can be summarised as follows:

- (a) *Our internal money supply must be directly related to productivity so that both inflation and deflation are avoided;*
- (b) *We should take the initiative in encouraging all the leading countries to co-operate to improve World liquidity;*
- (c) *Government overseas capital expenditure and overseas aid which exceeds the surplus of foreign revenue earned by the private sector should be financed by the World Bank or by other international agencies guaranteed if necessary by Britain;*
- (d) *British private investment overseas should be encouraged because the revenue it will earn will help to finance our future international obligations*

To finance the import of the most modern machinery and to carry larger stocks of imported materials during the period of rapid expansion should not cause anxiety given a continuance of the present balance of payments and reserves position.

XII SOME POSSIBLE REMEDIES

We have indicated in broad outline the policy required to bridge the gap between our present performance and our potential performance ten years or so hence if we are to achieve a sustained growth rate of at least 6 per cent per annum. The basic requirements can be summarised as follows:

- (a) **A change in the climate of opinion about economic growth;**
- (b) **More effective incentives for industry, managers and workers;**
- (c) **The encouragement of demand for both "individual" and "community" goods and services;**
- (d) **Alleviation of any short-term constraint in the balance of payments by overseas borrowing.**

It is necessary to emphasise that these factors cannot be taken in isolation since they inter-act. Thus, it would be reasonable to expect a significant change in the climate of opinion if greater rewards were offered to those who made better use of resources, and greater rewards would in turn mean larger spendable incomes which would stimulate demand.

A CHANGE IN OUTLOOK IS NEEDED

We have already emphasised the need for a complete change in attitude which will only be made possible if the old fears of unemployment can finally be eliminated, but there are other considerations. For example, the need to ensure that the supply of purchasing power keeps pace with technical progress which is clearly set out in the 1966 Report to the President of the United States of America on "Technology and the American Economy":

"The basic fact is that technology eliminates jobs, not work. It is the continuous obligation of economic policy to match increases in productive potential with increases in purchasing power and demand. Otherwise, the potential created by technical progress runs to waste in idle capacity, unemployment and deprivation."

Another consideration of paramount importance is the need for a new attitude to the problem of changing jobs. Workers will have to face the prospect of changing their jobs several times during their working life, and at present this is a very unpalatable prospect; it is necessary, therefore, that training facilities shall be greatly improved and made as pleasant and as interesting as possible. Also,

financial arrangements must be made to ensure that retraining does not involve financial loss.

It may be argued that generous payments to workers during retraining would be inflationary because they would be unproductive, but there is little substance to this because well organised retraining need not be totally unproductive, and, in any case, the expenditure is an investment in greater skill and, therefore, more production at a later date.

There will obviously have to be close liaison between the Government and industry if adequate retraining facilities are to be provided, but we believe that industry and private enterprise should be encouraged to provide as much of it as possible whilst Government should confine itself to encouraging the supply of retraining facilities, supervising the quality, and to providing an income for the worker undergoing retraining.

Finally, it is of the utmost importance that the Government should assemble and publish information about probable redundancies in certain fields, and the likely demand for labour in other fields, so that the combined efforts of all concerned may prove constructive.

XIII A LIMITED PROGRAMME OF IMMEDIATE ACTION

The following steps could be taken immediately and each would make a worth-while contribution to better use of our resources. A combined effect would be very substantial—that is to say, it could make possible three or four per cent additional growth in our economy over and above the growth rate which now obtains and is likely to continue.

(a) Companies

Boards of Directors, both in the public and private sector, carry a heavy responsibility. They should immediately press their managements for higher performance by setting targets and refusing to accept indifferent results.

Management remuneration should be performance-related with a sharper differential between the average and the successful. The incentives to promotion should be increased.

A generous share of the benefits of improved use of resources should be passed on to employees through productivity agreements on condition that they do not also receive an automatic wage increase as a result of an "annual round". Workers who genuinely co-operate in improving productivity must be seen to be substantially better off than those who are indifferent.

Industrial resources must be used more fully by an extension of shift work and the elimination of unnecessary overtime working, with consequent benefits to the individual worker.

At the same time public companies should seek to increase the number of shareholders so that more and more of the population acquire a stake in industry.

(b) Shareholders

Shareholders have become astonishingly apathetic—they should be encouraged, by every possible means, to exercise their rights and exert pressure on boards of directors to achieve better results so that the shareholders may enjoy immediate benefits from such better results.

Institutional shareholders who now have such a large segment of industrial equity in their hands ought to be encouraged to take a more leading part. The large insurance companies, pension funds, and even the trades unions, ought to recognise that having available to them technical and financial expertise which the ordinary shareholder has not, they ought to act as leaders of shareholders, whether in annual general meetings or otherwise.

There may be advantages in giving a limited legal status to shareholder committees if they are supported by more than, say, 20 per cent of the voting shares, and such committees might be given the right to commission a management audit.

(c) Trades Unions

Trade Union leaders will have a much more important part to play, and we believe they will be well able to do it provided they are not sabotaged by wildcat strikes and fringe lunacy. Trades Unions could set their sights at wage increases of around 8 per cent per annum in place of 5 per cent provided it is related to genuine production increases in contrast to the 5 per cent "annual round" which they have hitherto demanded and which has only been worth 4 per cent in real terms.

The Unions will have to play a large part in helping their members to change jobs and often to change crafts, which means that there will have to be much greater co-operation between unions. All this implies that Trade Union officers should be men of outstanding ability able to speak with real authority. They must, therefore, be better paid and become more professional in the sense that they should avoid party politics and concentrate on their proper task, which is to improve immediate and future conditions for their members.

(d) Government

It is the Government which will have to take the most important steps required to change the climate of opinion in Britain and shift our economy on to a more dynamic course because, in the past, it has been Government thinking and Government actions which contributed in such a large measure to the present state of inertia.

The prime aim must be to control inflation and to reduce Government spending. In our Research Papers Nos. 1 and 2 we demonstrated that the responsibility for inflation rests squarely on the shoulders of the Chancellor of the Exchequer and this is again emphasised by the First National City Bank in their monthly letter for January, 1970:

"But most of the blame for inflation is misplaced. For although inflation has a thousand faces, it has but one essential cause: overly expensive and erratic monetary policy that has pushed up the quantity of money more swiftly than the quantity of goods and services."

It is encouraging that the present Chancellor of the Exchequer does appear to have accepted this analysis and if the control of the money supply and of domestic credit does eventually provide a foundation for future non-inflationary growth the corollary should be a steady reduction in those taxes which have been imposed to "regulate" the economy.

Businesses and Trades Unions must be allowed to enjoy a period of at least five years free of hectic changes in economic controls if they are to recover their confidence, because the environment for better use of our resources will never be achieved so long as it is over-shadowed by the fear of vast and unpredictable tax increases.

We think it would be wise for Parliament to take back from the Chancellor of the Exchequer the powers which it delegated to him to use various fiscal "regulators", since these regulators have in practice consistently been used to support mistaken policies and, in consequence, have done great harm to the country.

The Government should not be allowed to make major changes in the economic environment without first being obliged to justify them to Parliament.

Another essential change which would improve the environment would be long-term budgeting, with taxes held steady for at least three years unless there is some manifest national emergency. New tax proposals should be publicly examined by a properly constituted parliamentary committee before being incorporated in a Finance Bill, and at least a year should elapse before new taxes are applied so that industry may have a reasonable chance to adjust to them.

We should abandon the present antique system by which the Chancellor of the Exchequer presents an annual budget to Parliament which has been prepared in secrecy and is then rushed through Parliament by the automatic use of the majority. It is an absolute ritual which does far more harm than good.

We recognise that changes of the kind we have suggested must take time because many people are afraid to change long-established parliamentary practices, but a start could at least be made by introducing budgets for two-year periods. The simplest and most direct way in which the Government can improve the climate of opinion is to increase incentives by modifying direct taxes and restoring stock options.

However, we do not believe that a modification of the tax system will, by itself, provide the impetus that is required. It must be accompanied by a phased increase in demand, and this may

involve a much greater concentration of effort in reducing Government spending.

It is notoriously difficult for Governments to reduce expenditure. Nevertheless, the Government must make a sustained effort and be seen to be making it, in order to restore the confidence of the public. It is evident that a great deal could be done to increase the efficiency of Public Authorities by modern planning methods and so get better value for the work carried out by them.

Any reduction in the number of civil servants would give vast encouragement, and a new spirit of enterprise would be generated by any indication that the Government intended to reduce subsidies and replace them by direct grants to those in real need.

The Government should declare its aim to reduce its total expenditure (central and local authority) to 35 per cent of the GNP. This would not be easy to achieve but it is possible and the attempt would set an inspiring example to the whole country*.

*Japanese annual average rate of growth (in real terms) for 1964-8 was 10 per cent. So far the annual growth rate for 1967-71 has averaged over 12 per cent.

"The public sector proper in Japan is small by European standards and the proportion of the gross national expenditure that is spent by the Japanese public authorities amounts to only half that of the British."

Professor G. C. Allen, C.B.E., F.B.A., in an address to the Economic Research Council, London. 28.4.70.

APPENDIX I

COMMENTS ON THE SOCIAL AND ECONOMIC IMPLICATIONS OF CONTAINER SHIPS IN DISPLACING CONVENTIONAL CARGO LINER TONNAGE ON MAJOR WORLD ROUTES

Submitted by Antony Vickers

1. In the recently issued Report of Lambert Bros. (Shipping) Ltd., which details all the major shipping services for which container ships exist or are planned, and which gives the basis for replacement, such as the number of voyages a year, the capacity of cargo carried, etc., the conclusion reached is that by 1972-74 some 200 container ships will have displaced a minimum of 750 conventional cargo liners of 10,000 to 12,000 dwt.
2. A/S Shipping Consultants of Oslo, in their recent study of the market for tramp vessels, estimate "that 768 conventional tramp units will be displaced by 1972 by existing and planned container services and they estimate a further 387 tramp units to be displaced by container schemes in the project stage, making a total of 1155 tramp units to be displaced".
3. A/S Shipping Consultants, using data collected by the Institut für Schifffahrt-forschung, estimate that the world cargo liner fleet, between 5000 and 10,000 GRT, was some 2,352 ships in mid-1969, aggregating 21.9 million GRT (excluding time chartered vessels). Of these it is estimated some 2,000 ships will be "exposed to encroachments from containerships over the next 5 years".
4. None of these reports refer to the social implications due to the technological advance of containerships, but a brief check on the amount of crew manpower required to transport the increasing amount of cargo by the old (labour-intensive) and the new (capital-intensive) type of ships is revealing :—

| | |
|--|-------------|
| 750 Conventional Cargo Liners with crews of 40/50, say | 35,000 men. |
| 200 Container Ships with crews of 30/40, say | 7,000 men. |
5. Redundancy of crews will be great and there is little doubt that the ships of some nations will not be overmanned; in which case "overmanning" will be clearly shown up, as well as the economic disadvantage of incorrect manning. It would seem, therefore, that despite world growth in the carrying of sea cargoes, a major problem in deployment exists already and is certain to increase, bearing in mind that the East Coast dock strike in the United States, from October to December 1968, arose from 12 container ships replacing some 50/60 conventional ships.
6. In the case of the 250,000-ton supertankers, the productivity of transportation per crew member has been increased by rather more than 50 times since the 15,000-tonners of 1950, but during the intervening period the demand for carrying crude oil has only increased from 246 million to 990 million tons—namely 4 times.
7. Crew redundancy is, of course, a major social problem but there will almost certainly be a falling off of shipbuilding orders arising from fewer ships being required to carry the volume of cargo. This in turn will affect shipyard personnel and there is already a dire need to reduce such personnel substantially by Upper Clyde shipbuilders and other well known shipbuilding concerns.

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