CIVITAS review

Volume 7
Issue 1
January 2010

Time for turning?

Why the Conservatives need to rethink their industrial policy (if they have one)

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The Conservative Party today would do well to draw on the lessons of its recent past in certain areas. In particular, there is a current squeamishness about the supposed decline of the manufacturing industry.

Whatever the desires of the Party to revive the sector, it is held back from this by a natural inclination to resist 'interfering' in the economy with an instinctive fear of 'picking winners' or worse, 'picking losers.' While it is not within the scope of this article to discuss the extent of the present industrial decline, I would argue that the Tories would do well to follow in the footsteps of their Thatcherite predecessors and get involved in industry should they win the next election.

Contrary to common belief, Thatcher and her ministers were not very laissez-faire in their industrial policy. While ties were cut by one hand in the form of privatisation, rhetoric and willingness to allow certain industries to fail, the other hand was granting limited subsidies and attempting to stem decline by courting foreign companies for inward investment. The involvement went even further, with a 'tough love' policy of stimulating self-sustaining competition, domestically and beyond. Britain's post-war distaste for rivalry, preferring gentlemanly agreements and cooperation, had to be ended to ensure Britain remained industrially competitive. The seemingly laissez-faire action of privatisation was only one step of this crucial process. Moreover, the current Opposition should recognise, as Thatcher did, that a pragmatic involvement in industry should outweigh any political obedience to an entirely market driven economy when recession looms and jobs are at risk. This is even more important when other countries are not playing a fair game. In Thatcher's time, a unilateral lack of aid in the UK would have tied one hand behind the back of British manufacturers while foreign companies were fed subsidies.

In This Issue:

British subsidies were no longer for lame ducks but to stimulate the competition needed for businesses to thrive. While far from perfect, the 1980s demonstrated a stimulating balance between intervention and non-intervention that could act as a template for today.

The two industries this essay will focus on in particular are defence and automobile manufacturers. Both suffered from the policy to promote 'national champions', producing behemoths such as BAE in the former and British Leyland in the latter, and they also staged a potentially surprising turn-around in the 1980s after severe problems in the previous decade. As well as this, the two sectors felt a heavy squeeze from Europe and the wider world, primarily America in defence production and huge Japanese exporters in car production. The industries reacted in different ways to these, as did the government.

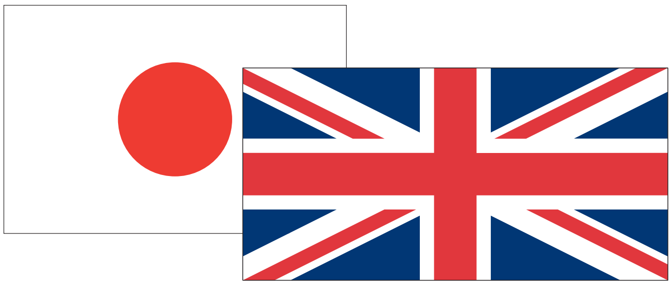
Thatcher's inheritance of discontent

When she came to power Thatcher inherited a poor legacy from her predecessors. Prior to her election, the British manufacturing industry was in disrepair due to over a decade of failed policy by both Conservative and Labour Governments. Post-war, Britain had had to face the huge challenge of shifting its economy from one revolving around its diminishing Empire to one based on its place in Europe. This signalled a shift from cooperative markets where British manufacturers could and did avoid direct competition to their having to compete in a very ungentlemanly international market and fighting to maintain their exports. The American mass production methods that competition demanded were also painful to implement. Industrial relations fell apart as workers saw their value decrease in the drive for mechanised production while shop floor managers were faced with a level of micromanagement never required before.

The British government's attempts to embrace Fordist methods were equally fraught. Mergers were extolled as a solution to ensure economies of scale but in reality though this was a flawed attempt to escape the necessary competition that manufacturing required. The British Leyland Motor Corporation was formed in 1968 but failed to upgrade or revive the lacklustre products it placed on the market. The Morris Marina and Austin Allegro gained reputations for poor quality and the company was only saved by nationalisation in 1974. In the same year, car imports exceeded car exports for the first time since 1914, a trend that has never since been reversed. Having been thrust into competitive markets without prior experience, traditional manufacturing organisations could not cope. As a result of the new requirements and strained industrial relations, they churned out goods that soon gained a reputation for poor quality.

Government policy during this turbulent pre-Thatcher period was as shaky as the industry it tried to sustain. A fundamental flaw was the belief in the market self-righting itself and that little had to be done by the government. This led to a certain laissez-faire attitude in which the severe degeneration of competition was ignored. Attempts to halt the deindustrialisation of Britain also did nothing to turn the inevitable tide. The highly interventionist nationalisation of multiple manufacturers was seen as an elixir by government but failed to bring the turnaround that was hoped for. Unlike under Thatcher, there was no crucial reorganisation of publicly owned companies to increase their productivity and efficiency. The 1970s nationalisation was a half-way house that didn't extend far enough: the owners of industry changed but nothing more. By 1975 £1 billion was required by core nationalised industries simply to cover their losses. The imperfect policy was the result of a flawed model of competition stemming from Harold Wilson. It was believed that through mergers creating 'national champions', world-class British companies would be born who could compete on an international stage.

In reality though, these giants were not created in the womb of competition that was so critical to industrial success. One merger, the General Electric Company, while seen as a success due to its improving the profitability of its predecessors, focused mainly on supplying products required domestically, such as in defence. This narrow supply allowed foreign firms to expand their imports into the UK as competition with them was still weak. Indeed, the government was 'picking winners' and giving grants based on the likelihood of success, but this was an imperfect guide. In November 1975 the Cabinet met with trade union leaders and industrialists to decide on 30 sectors of industry most likely to be successful and therefore deserving protection through government aid. Technical success such as Rolls Royce's RB211 engine did not automatically equate to financial success: Rolls was forced into nationalisation due to bankrupting itself whilst creating the engine. Other companies lacked a national or even competitive advantage in their industries yet were sustained by the government. Even regional policies designed to focus on maintaining manufacturing in certain areas often ignored whether a region actually had the potential to revive its fortunes. Moreover, while these policies dominated the decade, they reduced the long-term drive for sustainability in manufacturing. Aside from the obvious cushioned landings that subsidies and nationalisation could provide, the fluctuating policies of very high taxes under Labour as well as nationalisation meant businesses had little motivation for investing in upgrading their machinery and technology. There was little reason to reinvest profits today if there was a genuine risk of penalties tomorrow. Alternative methods of control of industry that could have been more effective were ignored. Rationing of key resources could force industry to increase efficiency while subsidies for productivity could act as motivators. During the 1980s, the Thatcher government experimented with these and other policies to extract the highest output from manufacturers while dismantling the status quo of the previous decades.



Selling off the silverware to strangers

Thatcher was revolutionary in her acceptance and even promotion of bringing foreign manufacturers into Britain. The government's support for this risked public outcry. While British Leyland was privatised and left at the mercy of the markets, Japanese car makers were welcomed into the North of England. The tagline 'made in Britain' was no longer a guarantee that these goods were actually made by British companies. Despite some questioning, as Kinnock did, if 'the Right Honourable Lady is going to bat for Britain?'[1] this policy was a part of the overall Thatcherite drive for increased competition in manufacturing and greatly improved the state of British exports. The drive for greater foreign investment in manufacturing was strongly backed by direct government action in industry, something that arguably went against the principles of the Conservatives at the time. This was a two step process: firstly, to bring the companies to Britain, sweeteners had to be provided, and secondly, they soon had to be defended as British products. The relationship between Japanese companies and the government shall be the focus of this section.

Thatcher freely admitted that extra motivation had to be given to Japanese companies to bring their business to the UK rather than to mainland Europe, where many of their products were exported. At one press conference she stated: 'We give regional aid as an extra incentive for companies to go to those areas, when otherwise they might not in fact go. As you know, they do get considerable financial boosts.'[2] This regional aid came in the form of subsidies. When Nissan agreed to build a plant in the UK in February 1984, the government agreed to sell it greenfield land outside Sunderland for agricultural prices of £1,800 per acre. This helped to ensure that the site was built in an area of high unemployment that would enrich the local area. The government was not 'picking winners,' but guaranteeing employment for thousands. Indeed, as the lower cost of the land would easily be recouped from the taxes paid by Nissan, it could be seen more as an investment than a subsidy. While this may have appeared to jeopardise the future of British industries within the area, the reality was that their future relied on job cuts. British Leyland, in an attempt to streamline its assets, continually shed labour in the early 1980s, with a third of its 12,000 commercial vehicle workforce laid off in January 1982 alone. Previously, government aid had even encouraged this, offering to finance the machination of manufacturing, a process inevitably leading to fewer labour jobs. Instead, Thatcher re-orientated the priority of regional aid towards encouraging already highly equipped and technologically advanced companies like Nissan to settle and employ a workforce neglected by British companies. Rather than throwing money at industry while keeping it at arm's length and hoping for the best, by getting directly involved, Thatcher's government spent smaller sums knowing that they would have a bountiful effect.

The defence of Japanese companies in Britain was of course key to ensuring that the UK remained a prime production station to export the finished goods to Europe. Without such a guarantee, Toyota and others would have been at the mercy of import tariffs and would have had little reason to base themselves in Britain. To ensure their status, Thatcher repeatedly offered such guarantees:

> 'Japanese-owned firms in Britain are, as far as I am concerned, British too. After all, they pay the same taxes as British companies and they are thereby entitled to the

same treatment. When Nissan experienced problem (sic) recently in some European markets, I backed them to the hilt. I argued that their cars were truly British and therefore truly European and that they should be treated by other member states exactly like other cars made in Europe—and now they are. If necessary, I will defend any other Japanese companies investing in Britain in the same way.'[3]

The strategy worked, with over 100 Japanese manufacturers employing 30,000 Britons at the time of this 1989 speech, so the situation was potentially win-win. However, this defence provoked anger from some who questioned the priorities of the government: 'does my Right Hon. Friend agree that it is anti-social, selfish and unneighbourly to buy foreign cars when equally good British cars are available?'[4] While Thatcher obviously denied this, the growth of foreign firms in Britain was a good stimulus both for the domestic consumer and producer of British goods. The competition it caused forced British companies such as the renamed Rover Group to fight for their market position. Rover, now competing against Toyota, Honda and Nissan in the mainstream, turned its focus to the executive market, producing the Rover 200 and 800 series, both of which sold well. Foreign competition thus forced British manufacturers to reassess their abilities and many such as Rover returned to niche markets, traditional areas of British strength.


Paul Channon

Although it never actually took place, the government seriously considered selling Land Rover, a division of British Leyland, to the US manufacturer General Motors (GM). This would have allowed Land Rover access to markets that it previously found impossible to gain entry to. Paul Channon, the Secretary of State for Trade and Industry argued that it:

> 'had no sales whatsoever in the biggest market for four wheel drive vehicles in the world – the US. A deal with GM... could give Land Rover instant access to the huge and lucrative market. The GM deal seems likely to offer real solutions to real problems.'[5]

This was a sound plan, but it was eventually dropped in the wake of the Westland affair which had caused too much controversy about selling British companies to foreign ones. While bringing foreign buyers into the UK was acceptable and even desirable to many, allowing them to control British assets was not. GM already employed 27,000 in the UK and had invested £1.2 billion up to 1986 so the sale would have been a sensible and logical one. The government's caving in was a flawed decision that hindered the development of the sector and left Leyland to continue with its burden. Moreover with hindsight, its eventual sale to British Aerospace in 1988 seems even more flawed. Keeping the British firm under the wing of another British firm that manufactured entirely different products was an unwise decision and smacked of misplaced jingoism. The missed sale clearly demonstrates the importance of government support in welding together foreign and British manufacturing. The Government had to act as the starting point for any form of inward investment and while both American and Japanese firms invested huge sums in Britain in the 1980s, this would not have happened without the initial impetus from the government. GM had an established market and vast resources of money to spare that could have been used to turn around Land Rover and lift deadweight from British manufacturing. By refusing to endorse and protect the sale, Thatcher dealt the manufacturer an indirect but still mortal blow.

Countdown to privatisation

While privatisation was a key goal for the Thatcher government, industries could not be sold off while they were still in appalling conditions. Interestingly therefore, some of the greatest increases in manufacturing efficiency and profitability occurred while companies were still under the control of government. The role that the government had previously played as effective 'bankroller' to industry now rapidly evolved. It took on the role of a shareholder; it expected the good returns on its money and demanded far greater accountability and justification for its investments. Indeed, the government maintained constant pressure for these improvements in a more visible manner than shareholders could. It used its privileged status to undertake referrals to the Monopolies Commission and other forms of scrutiny of nationalised industry took place in a manner previously reserved only for private companies. Pleasing shareholders would be far simpler after the conditions imposed by the government. Such measures ensured a turnaround of key sellable sectors. In 1980-1, the British Steel Corporation cost £4 billion to produce £3 billion of steel but by the mid-period, half the workforce had been cut and labour productivity had actually doubled. By the time it was privatised in 1988, it had overtaken both the US and Germany in productivity levels and had become a far more viable institution. The success of British Steel was based on the fact that the government had the ability to directly pressure the company to reform itself. This coercion ensured that the key requirement of competition was injected into sellable industry but also into competing nationalised ones as well. British Airways and British Caledonian were rivals on various air routes in the 1980s, but BA was overmanned and this held the company back. The government tried to solve this by increasing the competition by, for example, awarding Malaysian Airline Systems an extra slot to fly into Heathrow in 1985. BA, which had campaigned against this, was forced to improve its performance to compete.

The useful leverage that government held in manufacturing was not dispensed with after the privatisation of key sectors, keeping it closely involved in their management. British Aerospace and Rolls-Royce were put up for sale under Thatcher due to their profitability and long-term viability through a backlog of future orders. However, when BAE and Rolls were sold, the government retained a 'golden share' of the companies to guarantee that the companies remained British manufacturers, avoiding the problems of defence procurement being reliant on foreign defence contractors. Indeed, foreign stakes in the firms were limited to 15 per cent and then raised, but only to 29.5 per cent. The defence sector retained a special link with the government that other manufactures did not and its status and future were guaranteed. Similarly, the involvement of multiple defence companies in the Airbus A320 launch was supported by financial aid from the government at a time when most other industries were suffering from funding cut backs. The move was a huge success, and ensured the long term viability of these British manufacturing companies, as did government support for the 1987 Airbus A330/340 launch. While Thatcher's aim was to create independent industries, this did not mean that all ties had to be severed, especially in such critical sectors as defence. Involvement could and did continue in a manner that was highly mutually beneficial.

A neglectful or wise parent?

A continual source of debate on the subject of 1980s manufacturing is the extent to which British industries were abandoned by the government while unemployment was allowed to rise uncomfortably high. Indeed, why was this and what were the aims of refusing aid to ailing manufacturers? Thatcher's position was apparently very clear:

> 'If funding were given automatically to every company that had the misfortune to close, money would be piled into companies that were unable to compete and far less money would then be available... to create the work of the future.'[6]

This statement was given in response to the question by Mr Richard Livsey MP as to why the Prime Minister allowed the Lucas car electronics manufacturer to close. The reason for the closure was: 'Lucas has lost orders because Honda has given instrumentation contracts to Nippon Seiki'.[7] This refusal to save a British firm in the face of Anglo-Japanese firms importing foreign components may seem surprising, but such a stance was crucial to Thatcherite policy. Thatcher was performing what could easily be called 'tough love'. No firm deserved public funds if it could not survive on its own merit and 'lame ducks', no matter how many people they employed, could not be saved. The aim was simple. Without the safety net of government funding, manufacturers had no choice but to compete effectively or go out of business. This competition was not just domestic, but it was international. Lucas was competing with Japanese electronics firms and could not keep up. The quality and productivity gap was so great that, according to Livsey, even 'Austin Rover has also given a contract to it (Nippon Seiki).'[8] That Austin Rover was also importing components suggests that British ones were of poor quality, which was the result of previous British government providing bail-outs to any company in need, reducing their long-term performance. As Channon summarised:

> 'state owned companies are protected by the knowledge that the state stands behind them and that the tax payer will always bail them out... they have no need to worry about satisfying their long suffering customers on price, on quality and on delivery on time.'[9]

It was feared that international competition could force Britain out of the market, but the far more desirable result would be that British firms fight back and produce world-class products that could also be exported. This would benefit not just the makers of components, but also those such as Austin Rover, whose cars would become of a higher quality. In much of British manufacturing therefore, one bad apple could spoil the bunch but, in the same way, an improvement in one area could have an equally powerful benefit.

This could come full circle, with the state eventually reaping the benefit of forced competition. When questioned by Neil Kinnock on ensuring General Electric Company (GEC) winning Ministry of Defence (MoD) contracts, Thatcher retorted:

> 'I made it perfectly clear that defence requirements must be paramount in this decision. May I also make it clear that an independent inquiry is neither necessary nor appropriate to enable the customer to decide how best to meet its vital need to have an effective airborne early warning system in operational service as soon as possible.'[10]

The MoD had as much right to choose its suppliers based on quality and cost as any private contractor. Likewise, the 1986 BA contract for new engines was huge and equally lucrative for the supplier, but Thatcher refused to allow there to be an automatic assumption that it would go to a British contractor, namely Rolls-Royce. She stated that: 'The essential thing is that Britain wins its orders on merit and performance.'[11] While this may have appeared to be non-intervention from Thatcher, she was actually highly involved through changing something more fundamental: the ethos of public contracting. The gentlemanly agreements of cooperation and 'lending helping hands' was no longer a satisfactory way to award public deals and the same rules now applied in both public and private spheres. By ensuring that government contracts were based on these same criteria, it forced British companies to compete and improve their product; being British no longer afforded them special treatment. In 1986, the order for a Nimrod 'early warning system' that would have used British owned GEC components and would have been installed by BAE was cancelled in favour of the cheaper US firm Boeing's airborne early warning and control system. Events such as this sent out a clear message: British goods had to be simultaneously top quality and affordable. As supplying high quality goods at home would also make them more attractive as exports, the benefit, according to Douglas Hurd, would also be felt in wider circles: 'the battle to reduce unemployment can only be won by having an economy fit to compete in international markets'.[12]

The Thatcherite desire for companies to self-improve certainly had an effect. The main problem that British Leyland Motor Corporation faced from its inception was its huge size but lack of rationalisation. It had 48 factories, 23 major plants and brands and products that spanned from cars to trucks. In 1981, However, it split into three parts and British Leyland, the car manufacturer, could at last be streamlined. This was a complete top-down change, with a new management and physiological testing used to both fire and promote individuals while others were poached from Ford. Perhaps most importantly, the company also made an agreement with Honda, the Japanese manufacturer with similar production methods. The agreement took the form of the Honda Ballade which was developed in Japan but built in Leyland's British plants and sold under the Triumph brand. This cooperation was a turning point for the company and the beginning of its path to revival after being so long in the red. On the other hand though, the new management rejected Thatcher's own recommendation that Leyland import all its new engines as well from Honda. Instead, they argued that engines were a core component of the company and therefore had to be produced under the Leyland standard. In this case, they were entirely correct as the value of a car manufacturer that has no engine capability would be severely weakened and it therefore retained its attraction for privatisation. Thatcher was going too far here to assume that foreign imports were the sole solution to the crisis facing the car industry. The real solution was that of independent production ability, something that Honda *et al.* brought to Britain in their plants, but also something that Leyland could retain as a trump card. The new determination of British Leyland secured £450 million from the government. However, this aid was unlike that of previous governments: it was not a crutch to lean on, but a reward for having revived its fortunes and increased productivity. Thatcher herself argued that 'this is not to enable them to carry on as they were but to help them to carry out the necessary radical restructuring, so that they, too, can contribute eventually to the recovery.'[13] Thatcher was willing to help those who helped themselves and while grants would act as a carrot to the stick of refusing bailouts, the impetus for modernisation now came from industry itself, rather than a chiding Minister.

A friend in need...

The free market doctrine and aid for industry were not mutually exclusive concepts for Thatcher's government and the two could work hand in hand. In 1980, the British electronics manufacturer International Computers Limited had its export ability crippled by the devalued sterling. This came at a time when the giants of the sector, including IBM and Japanese manufacturers, were fighting for their positions in the market by igniting a price war. While the Conservatives were instinctively hesitant to fund a 'lame duck', the collapse of the company would have undermined the government's commitment to developing computer and technology production in Britain. The result was that the government did not provide actual loans to the company, but instead provided a guarantee on any private loans given. This allowed the firm to weather the storm and it survived well beyond the Conservative government. While this was a clear-cut non-interventionalist outcome, the majority of other lifelines given to industries were not so clear-cut.

While much evidence has pointed towards Thatcher increasing British manufacturing independence and a drive for improving its competitiveness, the method of securing international trade was sometimes entirely based on government intervention. Thatcher was quite open about the fact that her government had had to intervene on behalf of British industry to provide it with the basis to compete outside the domestic market: 'We have gained considerable contracts. The Government have operated behind private companies when we have been negotiating contracts overseas. We have achieved a very great measure of success.'[14] The reason for this perhaps surprisingly willing involvement in trade was simple: everyone else is doing it so why not us?

> 'Foreign Governments stand behind their companies when contracts are negotiated. On occasion, they add

> aid to those contracts; so do we. We are operating on a similar basis and winning contracts in the teeth of international competition.'[15]

Thatcher's reasoning was entirely pragmatic and, for her, this justified the intervention. This appears to be sensible reasoning. Other countries were receiving the support of their governments in a manner that would unfairly impact on British goods if nothing was done about it. British government involvement was balancing this out and restoring a level playing field. Indeed, rather than overly advantaging British manufacturing or increasing productivity, this was simply ensuring it had the foundations required to compete internationally and that this was a sustainable endeavour. For this reason, such involvement could be seen as the ideal form of government interaction with industry; giving aid that it could not find anywhere else. Nonetheless, Thatcherites were still uncomfortable with the involvement and felt the need to justify it. Channon declared:

> 'We must also recognise that we do not live in a world of free and unsubsidised trade, however desirable. That means that it is up to us to give our exporters the same help and financial assistance as their competitors enjoy.'[16]

The involvement was seen as a necessary evil in a world that failed to obey the Thatcherite precept of free trade and was intended to help manufacturers to help themselves. This justification though could be taken quite far as an excuse for intervention. When nationalised British Steel was given a further £450 million of state aid in 1980, Thatcher claimed the aim 'is clear, we want the British Steel Corporation to be able to compete with any company in the world, on price, on quality, on delivery'.[17] The investment was made because, 'we know there is a lot more money to be earned, because other steel companies are managing to have the output with very, very, far fewer people.'[18] Here, the government was directly funding the long term ability of British Steel to compete internationally. This actually complemented the Thatcherite decree that government's primary role was to give assistance when industry required it, so involvement could indeed go hand in hand with Conservative policy.

Underinvestment for the future

Thatcher faced a dual lack of investment in the manufacturing industry when she came to power. On the one hand, the overall priority given to the sector as a whole was low and on the other, there had been scant use of newly developed technologies that could improve competitiveness on a world stage. The standing of industry prior to 1979 was low in part due to a very British ethos of fair play and the importance of not being earnest. Working too hard appeared unusual and was frowned upon by fellow workers and managers alike as something to be suspicious of. Likewise, the aim of making lots of money was seen as unpleasant at both the level of the individual and the company. The knock-on effect was a lack of motivation to strive for productivity both on the shop floor and in the boardroom. This situation was not helped by the government either. It appeared to transform a dislike of hard workers and those reaping financial benefit into an actual penalty in the form of high personal income tax. This was not something that was quickly reversed under Thatcher despite her suggestions to the contrary. The weight of direct taxes actually increased as a percentage of all tax: in the 1950s these, including National Insurance contributions as well as income and wealth taxes, accounted for 52% of tax income. By 1988, they had risen to 58%. These taxes gave little flexibility for the average voter to invest their excess personal earnings in industries. Had taxation levels been lower, it would have created more demand for shares and raised the value of companies, with long-term investment in the manufacturing sector thereby increasing too. Even when taxes were lowered in 1987 and 1988, the resulting inflationary boom damaged firms.

Moreover, the use of capital gains tax effectively penalised long-term investment in industry. In the mid-1970s the effective marginal rate on investment income was 98 per cent. If the government took a sizable portion of any investment made, then there was less reason to invest. While accruing financial gains from this, the government was also impeding its own policy of aiding manufacturers. Because investment would inevitably drop as a result of the tax, few countries implemented capital gains tax, putting British firms at a disadvantage, especially since it made international inward investment in the UK a less desirable prospect. The tax pushed many to invest in companies outside of the UK. This was seen as an achievement by Thatcher:

> 'British companies too, are very active in making overseas investments. We live in a global competitive trading environment and it is important that we, too, invest in other countries.'[19]

This was a mistaken sense of achievement. Companies were forced to invest abroad to escape the 'penalties' of doing this domestically. While British firms were wasting away from a lack of resources for modernisation, the government was effectively funding the competition. At the same time as this dampener, the emphasis of the growing financial market was to buy shares simply to accrue maximum profit. Holders of shares were concerned only with trading these rather than investing for the long-term increase in their worth and that of the company they bought into. Therefore, for companies even to make their shares desirable, the management was concerned primarily with improving their short-term value, something that inevitably undermined any long-term planning. This resulted in low reinvestment in a company's ability to increase efficiency or quality and so even the money poured into firms was not used for a crucial purpose.

Over time, the real victim of this was consumer demand. The quality of British goods therefore fell in relation to that of competitors and, as demand for these products fell, so did investment. This turned into a downward spiral of decay for many manufactures who faced continually having to struggle against the impediments government had effectively set up against them while also reinvesting in means of production.

The future of newly privatised companies could be protected by placing limits on share selling. When the 50% government stake in Ferranti was sold in 1980, 'buyers of the shares have agreed not to sell for two years, and to accept the shares being registered with the National Westminster Bank—restrictions imposed, it is believed, for the first time in Britain.'[20] The revival was also aided by government initiative to reverse the negative connotations of 'enterprise'. Taxes were reduced, with the top rate cut to 40% and the standard rate reduced from 33p to 25p as soon as Thatcher came to power. The aim was to provide an incentive while the long-term viability of industry was ensured by an improvement of training schemes. From 1980 the government increased spending on the Job Release system, Youth Opportunities Programme and work-sharing ventures. By 1982, expenditure on these had increased fourfold to £1.6 billion. These changes were in part politically motivated. The traditional apprenticeships were viewed with suspicion as a route for the trade unions to infiltrate the workplace. Despite their quality, they were therefore sidelined, and alleviating youth unemployment was placed as a higher priority than actual quality of training.

Technology had also been an important casualty of the 1970s. Britain's manufacturing slump was in part caused by the failure to upgrade the means of production. As other countries had gained a technological advantage, Britain's international position had weakened. This problem persisted well into the Thatcher years. Investment in research and development (R&D) was mostly confined to the defence sector, which accounted for 50% of overall R&D spending in 1987, compared to 12% in Germany, where the majority was spend on improving industrial capabilities. The low priority in Britain was a traditional weakness, as private R&D had always lacked support from firms. Many firms were also unwilling to spend money upgrading their plants and equipment. Of those that did, the majority brought their equipment from Europe rather than develop it themselves. This placed them at best on a par with foreign competitors rather than giving them the lead. The development deficit also caused clustering, another British tradition, to end; prior to the 1970s, as one sophisticated British industry emerged, others would develop to reinforce it. Thus reliance on foreign research and upgrades presented a large problem in sustaining British manufacturing. The government attempted to overcome this by acting as a coordinator for R&D, as Channon argued:

> 'Research and Development has become increasingly expensive and the risks involved and the timescale required have made it nearly impossible for an individual company to undertake it alone. Government can help by encouraging companies to come together and collaborate.'[21]

This allowed British firms to pool their resources as well as their knowledge to benefit from the advantage this created. Here, government was living the Thatcherite dream of enabling industry without heavy involvement. In the sector of defence research though, government took a far greater role. According to George Younger, the Secretary of State for Defence from 1986-89, this was 'highly sophisticated' and 'hugely expensive... it takes years to research, develop and produce'.[22] The impetus here was set out by the government itself, which along with equipment provided 'jobs directly for about 225,000 people and indirectly...170,000 more.'[23] There appeared to be a balance that the Thatcher government sought to maintain. However, the balance was often upset. Firms such as BAE relied on MoD projects and without a constant supply of these, their profitability was jeopardised. When the Nimrod contract was terminated BAE announced 'without production work now the company will be unable to maintain its large military aircraft capability'.[24] The total loss from this termination was £20 million. The government's aim to increase independence of companies floundered in the military sector, but this was not the fault of the government so much as of companies failing to ensure their products were viable in a wider market. In the infamous Westland affair, the company effectively stalled on this crucial issue. Justifying her refusal to bail it out, Thatcher stated:

> Careful consideration was given to what action might be open to the Government to help Westland—in particular, whether the services' helicopter requirements could be met by the purchase of the Westland W30. The Government concluded that we could not justify giving Westland orders for helicopters for which our armed forces had no operational requirement. It was judged that there was no defence interest that called for a rescue operation by the public sector.

Ultimately the W30s were unsellable, and this was the responsibility of Westland, not the government. The company had put all its eggs in one basket by banking on a sale to the MoD. Had the firm investigated which helicopters other countries required and based their priorities on international rather than domestic sales, then the fate of the company could have been very different.

Inflated importance

The importance placed by Thatcher's government on the use of interest rates to fight inflation was a hindrance to industry.

For the government, restricting the money flow was a pleasing prospect. Peter Morrison MP, sometime Minister of State for Industry said: 'A sound economy requires steady growth with low inflation. That combination is the best, indeed the only, way of creating new jobs and tackling unemployment.'[25] In theory, it could ease economic problems in an anonymous manner as no confrontation with unions or unpopular taxation was required—moves that may risk losing votes. However, the use of tight money and high interest rates kicked manufacturing at a time when it was already down in the early Thatcher period. From June 1979, the bank rate was above 14 per cent for 21 months, the highest sustained level for a long time. This occurred while inflation was already causing borrowing problems and, as a result, investment fell by £8 billion which dragged production down with it. While this negative consequence of interest rate use was only a problem for the initial Thatcher years, a reliance on inflation as a universal scapegoat was a flawed concept. Other reasons for a rising cost of living such as higher indirect tax or falling exchange rates were effectively ignored. Moreover, the government, in wanting to limit the money supply, assumed that the Bank of England had the necessary ability to carry this out. While certain measures could be enacted, supply was hard to restrict without causing knock-on effects. The raising of bank rates in November 1979 from 14 per cent to 17 per cent slowed the GDP by four per cent, the greatest downturn since 1945, while the exchange rate rose rapidly. Indeed, the reliance on money restriction, combined with the 1979 energy crisis, caused a deeper and longer recession in the UK than in other countries. The higher oil prices should have strengthened the pound but instead it fell. No other country suffered a four per cent GDP setback, and the high interest rates exposed Britain to greater risk than most other countries. The rise of unemployment from five per cent in 1979 to 12.5 per cent in 1983 was much higher than in other countries. The silver lining to this cloud was that wage inflation was finally curbed, a goal of the Tories but hardly brought about in a successful way. Thus while the ideas behind the policy were solid, the performance was certainly not. Later in the 1980s though, a sea change took place with far less emphasis on restricting money supply. While Norman Lamont, the Financial Secretary to the Treasury, said in 1988: 'The control of inflation is a job for monetary policy and that means interest rates. Interest rates have worked in the past and they will work now.'[26] However, monetary targets set by the government were missed and then abandoned in the face of failure. Indeed, the later Thatcher years were marred by a lack of stringency in this area. The problems faced in 1988 were partially the result of not ensuring inflation remained low after 1983. This was not laissez-faire so much as laziness.

The economic troubles of the period, while perhaps unavoidable, could have been lessened by a more hands-on approach to the situation. The Thatcherite desire to minimise government involvement in the economy led to deregulation of far more than just nationalised industries. Most quangos were abolished, the exchange control mechanism was abandoned and particular brakes on bank lending were dismantled. The premise of cutting so many governmental ties with the economy was that they were unnecessary in a self-regulating economy. However, the economy certainly was not doing this and when it needed adjustment from the government, help could only then be provided by indirect means. In 1985 the balance of payments moved into the red as investment abroad picked up speed, but having no exchange rate controls meant this negativity could not be checked. Thus the government's unwillingness to actively involve itself in regulating the economy caused multiple problems for the manufacturing industry. While the politicians might not have known best, burning bridges was not the route to a successful economy.

A guilty conscience

The internal conflict that the Conservatives suffer today in their industrial policy mirrors that of their forebears but this should not be seen as something negative or shameful. At times, their free market instincts led to problems later. Patrick Jenkin, Secretary of State for Industry 1981-83, explained: 'of course we had to cut away the jungle of controls we inherited. Of course we had to stop second-guessing industry and leave industries to run their companies.'[27] As discussed above, the dismantling of this apparatus was not necessarily better than keeping controls in reserve for when the economy was destabilised again. For the most part, the free market ideas driving the Thatcherite government conflicted in many ways with the actions they actually took. In the 1979 manifesto, the Conservative position on involvement in industry was set out as: 'Government strategies and plans cannot produce revival, nor can subsidies.'[28] This was reflected in Thatcher's speeches prior to the agreement with Nissan. The Prime Minister was repeatedly pressed by MPs of regions with high unemployment to recommend their constituencies as a site. A typical response was always: 'Nissan chose where it would go. Nissan went to look around; Nissan chose where it would go. I cannot direct. I do not intend to direct.'[29] However, once the deal was sealed and the success of the intervention had been proved, her U-turn of policy in favour of pragmatism was vindicated and this showed in her speeches: 'I got ... managed, was instrumental in trying to get Nissan to go to Sunderland.'[30] She felt that the success of this policy that went against her free market instincts was so great to her that it deserved public recognition.

This rhetorical advertising was in part necessary due to the way in which the Conservative Party was perceived. It was popularly seen as very laissez-faire even if the reality was quite different, and numerous politicians bemoaned this fact. Jenkin was typical in his lamentation that Thatcherite industrial policy was 'a thousand miles from the picture of laissez-faire which some seek to paint'.[31] However, it is fairly easy to see why the majority of voters could be misled in thinking this was true. In one speech Channon complained that the Party had to deal with 'others (who) have gone even further and claim that we do not have an industrial policy at all' while in the same breath he declared:

> 'we have a duty to make sure that government does not get in the way of business. It is all too easy for government to strangle business in a welter of red tape... the best thing we can do is to stand back and let industry get on with the job.' [32]

For many, such words implied a government abandonment of the manufacturing sector and this did not sit well with the public. An October 1983 Gallup poll showed only 39 per cent of voters were in favour of privatisation while 46 per cent were actually opposed to such a move. It was polls such as this that prevented the Thatcher government from nearing the £8 billion cut in expenditure on public services that it seriously discussed while in opposition. Indeed, expenditure on social services increased from £36 billion in 1978-9 to £93 billion in 1987-8, an increase of 30% in real terms while GDP had risen only 20%. This again demonstrates that the reality of the situation deviated from any form of rhetoric. However, this increase did not fit with Conservative doctrine so was not advertised as a benefit of Thatcherite rule. Instead, emphasis was placed on the deregulation elsewhere that paid for these services, a move which nurtured an unwanted laissez-faire image. Privatisation and deregulation were not vote-winning policies and to maintain political viability, the achievements such as inward investment had to be proclaimed.

In a similar manner, the belief that government was either powerless to stop the demise of certain industries, or that it was not its place to do so, was also challenged by the reality of the 1980s. Paul Channon suggested:

> 'New industries are always springing up and expanding – while, at the same time, older ones are inevitably contracting. That process can sometimes be painful... government can help in this... but we cannot stand in its way. To try may save some jobs for a short time and at great expense. But it would destroy many more in the longer term.'[33]

However, sitting back and letting the economy take its course was soon found to be a flawed process. In the recession of the early 1980s, many sectors did indeed contract, especially in heavy manufacturing. These losses were not balanced by new jobs emerging elsewhere in manufacturing or in other industries. Later, when employment did rise, it was primarily in the markets for female and part-time labour, with increases in full-time male employment grinding to a halt. The government eventually had to help and modified its policy. While not saving British industries to save jobs, the same advantage could be found by bringing in foreign firms.

Conclusion

Thatcher's policy 'to sum up... is neither that of centralised planning... nor of total laissez-faire'[34] according to Channon. This still leaves a wide passage between Scylla or Charybdis and the government fluctuated inbetween the two wildly. It was drawn naturally to hold industry at arm's length due to the free market principles held by most ministers, but simultaneously a pragmatic inability to let key industries fail and unemployment rise too far forced intervention. Managing this was tricky and was not handled perfectly by any means. It was not Thatcher's intention to create 3 million unemployed, but nonetheless it was a direct result of her government's meddling with interest rates at a time of exchange rate uncertainty without considering the long-term consequences of such an action. This was her government's involvement at its worst, and was as much a form of negative government meddling in the economy as any that preceded it.

Thatcherites received a legacy of multiple nationalised industries that they were keen to offload. However, this was impossible until the industries were viable enough to survive, which required time for them to be reorganised to allow them to compete in international markets. Thus, as much as Thatcher found nationalisation distasteful, it had laid the foundations for future success. Doubtless without the flurry of 1970s nationalisation, multiple industries including British Leyland, but also future winners such as Rolls-Royce, would have gone bust and manufacturing in Britain would have been non-existent by 1979—a far worse inheritance.

Thatcher's courting of Japanese car manufacturers was certainly the right thing to do. It kept British jobs in the industry and also reduced dependence on the ailing British Leyland. The inward investment did not create any new problems for Leyland; the problems were there already and it exacerbated them—a very different thing. While help was given to the British firm, the Japanese offered an entirely new start for the sector. While some complained that this amounted to an abandonment of British manufacturing, it was clearly quite the opposite, and Thatcher was simply ensuring that all her eggs were not placed in one basket.

Perhaps the greatest and most relevant lesson to be learned from Mrs Thatcher's government was that of competition. The revitalisation of manufacturing in the 1980s was founded on a new aggressiveness that enshrined this principle. Firms were forced to compete to survive by producing the best goods at the best price in the fastest time. The fear of going under was enough to drive even the most lethargic of previously nationalised industries. Such a move, though, did not rely on the government removing itself from the economy, as some Conservatives assume. Government has to be very much involved in nurturing an environment in which competition can flourish and this involves creating a level international playing field through subsidies or marketing as much as bringing in foreign competitors. Ultimately, the principle beneficiaries of such a 'tough-love' attitude are British workers and the British manufacturing sector. While manufacturing's share of the economy has decreased, it is far better that in the remaining areas Britain is producing goods of a world-class quality that will beat international rivals rather than producing a large number of products that no one, even in this country, wants, as was the case in the 1970s. Just as firms had to shed their workforce and streamline production, so Britain as a whole had to face the reality of competition from other countries. While Japan or the US may no longer be the principle rivals of the 2000s, the same basic principle must drive British manufacturers: compete to survive.

Footnotes

1 Kinnock, Neil 1986 Jun 10 Tu Hansard HC [99/170-76] PMQs
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3 Thatcher, Margaret 1989 Sep 20 We Speech to the Keidanren ("The Open World Economy") Thatcher Archive: COI transcript
4 Marlow, Tony 1989 Jun 13 Tu Hansard HC [154/698-702] PMQs
5 Channon, Paul, Speech to the Trade and Industry Forum at the Conservative Central Office, 20/02/86, Conservative Party Archives at the Bodleian Library, Oxford
6 1987 May 7 Th Hansard HC [115/854-858] PMQs
7 Livsey, Richard, ibid
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9 Channon, Paul, to the Bow Group at Westminster 8/12/86 CPA 725/86
10 1986 Dec 16 Tu Hansard HC [107/1048-52] PMQs
11 1986 Jun 10 Tu Hansard HC [99/170-76] PMQs
12 Hurd, Douglas, Speech at Chifton, 5/5/86 CPA 162/272/86
13 1981 Jul 27 Mo HoC Hansard HC [9/828-38]
14 1981 Oct 28 We Hansard HC [10/881-87]
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19 1989 Apr 20 Th Hansard HC [151/454-58] PMQs
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31 Jenkin, Patrick, Speech to Greater London Young Conservatives Annual General Meeting at the Conservative Central Office, 15/02/86, CPA 58/86/2
32 Channon, Paul to British Institute of Management Annual Lunch, 21/05/86 Conservative Party Archives 307/86
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Civitas Schools

Eleanor Rogerson, Project Director

Over the past five years, Civitas has been helping children from underprivileged backgrounds reach their full academic potential. Aspirations are raised and confidence boosted as children diligently attend weekly two or three hour English and maths lessons. Our dedicated teachers, traditional teaching methods and small class sizes ensure every child receives the best possible support. We want all our children to be able to read fluently, spell accurately and know their times-tables.

We made some really significant strides in 2009. We opened new supplementary schools in London and Newcastle as well as expanding established classes in Birmingham, Norfolk and Yorkshire. Our network of eighteen supplementary schools in community centres across the country provides indispensible lessons for over 400 children every week.

In order to monitor the progress of children at our schools, we use a unique personalised assessment created by the University of Durham. Their Interactive Computerised Assessment System (InCAS) supplies teachers with individual profiles of each child as well as comparable age-equivalent scores. The test measures progress in topics including word decoding, word recognition, spelling, comprehension and mental arithmetic.

We can now accurately track the progress of individual children over the course of their time with us – and we're seeing great improvements! 75 children from five of our schools recently took the test for the second time. We are able to compare this set of data with their results from 2008. The majority have done very well and improved their scores by up to three and a half years!

The average increase across the groups was one year and six months in their 'English ages' and in one year and three months in their 'maths ages'.

Our 2009 summer schools provided two weeks of intensive tuition for 80 pupils. The children in the lowest ability group at our Wapping classes showed an average increase of one year and seven months over the two weeks! Outings this year included visits to the Natural History Museum, the British Library, the Birmingham Repertory Theatre, Norwich Cathedral and Segedunum Roman Fort.

There are endless examples of dramatic progress made by individual children. 10-year-old Rebecca from our Camberwell classes was unable to read even the simplest sentences when we met her eighteen months ago. This time last year she had a reading age of just five years and two months. She spent the past year working through the Butterfly Book with Phoebe Dickerson, one of our most experienced phonics teachers. Rebecca's InCAS scores from this November show that she is now reading at the level appropriate for a child aged eight years and six months! She is continuing to progress rapidly and is much happier and more confident as a result.

When children like Rebecca reach their expected levels, we are able to put them back into larger groups, but then there are always more challenges. Their places are quickly taken up by new children who are struggling in their full-time schools. We are always grateful to our supporters who make it possible to provide a helping hand for these children.

CIVITAS is an independent research institute. CIVITAS is independent of political parties and accepts no government funding. It relies entirely on private donations to fund its work.

The aim of CIVITAS is to deepen public understanding of the legal, institutional and moral framework that makes a free and democratic society possible. Our object is to revive civil society, that network of voluntary social institutions, charities, mutual aid organisations and other collective bodies that lie between the individual and the state. We believe that in social affairs the alternatives to government are not exhausted by commercial services alone.

We have established a reputation for work on social issues that transcends party boundaries. Our authors examine, analyse and report on views about the best way forward on particular issues. The object is to raise the quality of informed debate. For further information about CIVITAS and how you could become a member, please email us at info@civitas.org.uk or call +44 (0)20 7799 6677.

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