Industrial Policy and the Developmental State: British Responses to the Competitive Environment before and after the 1970s

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The macroeconomic history of Britain since the end of World War II has established key features of her economic and industrial experience. These include the country's capacity to reconstruct the economy and the balance of payments with commendable success until 1951, its enjoyment of near full employment, high investment, expending trade and a measure of economic growth during the "golden age" of the 1950s and 1960s, a growing realization of relative economic decline from the 1960s made even more extreme during the stagflation of the 1970s, the resort to free market monetary strategies to foster economic resurgence during the 1980s and, throughout the post-war period, an excessive desire to fashion policy in defense of balance of payments stability and the strength of the pound sterling.

Recent surveys of macroeconomic performance in Europe over the post-war period have cast a further shadow on Britain's performance, emphasizing that the proximate sources of economic success in Europe and elsewhere during the "golden age" of the 1950s and 1960s were weaker in Britain than elsewhere while the determined shift in economic priorities adopted after 1973 (but particularly after 1979) failed to deliver a promised economic renaissance, save at the cost of rising inequality, lost manufacturing capacity and job insecurity [Crafts and Toniolo, 1996, pp. 131-72]. The relative growth failure of the United Kingdom for most of the post-1945 period has been extensively documented and need only be summarized here. The UK fell from second position in terms of real income per person in Europe in 1950 to tenth by 1979. Before 1950 the UK was only overtaken by non-European countries, with the exception of Switzerland, but between 1950 and 1979 eight European countries overtook the UK. Since 1979, by which time the UK's ranking had fallen to 13th, the UK had been overtaken by three Asian countries and Italy, having also failed to regain the lead over any of its European neighbors. The average annual growth of manufacturing output in the UK between the peak years 1964-1989 was 1.5%. This compared with 6.6% in Japan, 3.9% in the

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United States, 3.7% in Italy, 2.9% in France and 2.7% in Germany. The UK's share of world manufacturing trade fell from 20.9% in 1937 to 16.5% in 1960 and to 9.1% in 1979 [Crafts, 1993, p. 20; Kitson and Michie, 1996, pp. 196-7; Crafts, 1997, pp. 47-60].

This enunciation of relative failure could be buttressed by even more data. Although there is continuing debate concerning the most appropriate comparative indices, about whether any statistical comparison can properly account for variations in the economic maturity of different countries, and how far measures of aggregate performance can ever capture the true costs of economic growth (making league table performance a less than objective test of success) Britain's relative growth failure for most of the post-1945 period suggests at a minimum a tale of missed opportunity and/or benign neglect of comparative economic advantage.

It is a not new tale, to state the obvious. The "declinist" debate has populated practically every sub-period of British economic history since 1870, producing an historiography awash with explanations of the country's relative fate. To the list of the usual suspects of entrepreneurial failure, fragmented industrial relations, and the class structure can be added educational failings, poor management, elitist civil servants, financial short-sightedness, inadequate competition and merger policy, insufficient and misdirected investment, and the longevity of Britain's industrial past which left her after 1945 especially transfixed by the sight of previously disadvantaged countries ruthlessly exploiting common technology, know-how, and human and capital resources to greater comparative effect.

A critical part of post-war macroeconomic history relates to the rise and fall of the Keynesian consensus, spurred in large part by the inability of governments in an open economy to manage the pressure of high demand until 1973 except by dampening the economy in times of economic expansion in order to preserve some element of balance of payments stability and to protect the value of the pound. Britain's tendency to raise import demand in times of relative expansion, it is widely held, arose from the inability or unwillingness of domestic manufacturers to respond quickly enough with the goods people wanted at a given price and quality, except in luxury niche markets. Consequently, as imports rose governments deflated the economy until such time as there was a perceived threat to jobs and aggregate demand, after which a stimulus was applied, often too late and with blunt budgetary instruments subject to time lags, generating the "stop-go" policies of renown. With a widespread belief in the assurance of macroeconomic stability through the management of fiscal and monetary aggregates, the argument runs, there was little support for general intervention in sectors and firms beyond the sphere of post-war public ownership.

It is in this context that British post-war governments have been criticized for not confronting the microeconomic foundations of comparative economic success, failing to develop effective policies of industrial modernization and inculcating instead, in Pollard's words, a "contempt for production" and a passion for market-led solutions irrespective of whether they served either the medium- or long-term economic interests of the nation. From this

perspective the fact that investment and labor productivity remained low in relative terms in Britain after 1950 is less critical than why this state of affairs lasted so long and why greater attention was not given to the more efficient use of prevailing levels of gross capital formation. By 1950 the average age of Britain's gross non-residential capital stock was the lowest of the G-7 economies. Britain had been the largest recipient of Marshall Aid and other U.S. assistance programs during the period 1946-50 and had taken positive strides to raise productivity, limit domestic consumption, and fashion a mixed economy with at least the potential to capture a large share of world trade in manufactures, especially in Europe [Middleton, 1996]. Nonetheless, as recent research has shown, the post-war Labour administrations had considerable difficulty in persuading the private non-nationalized industrial sectors at a time of relatively easy markets and high profits to turn their attention from the needs of short-term production to innovative development, improved design, and enhanced delivery and service [Mercer, Rollings, and Tomlinson, 1992].

This neglect of the productive base continued during subsequent decades. To some historians the reasons are patently clear. Pollard's trenchant criticism of the wasting of the British economy since 1945 focuses on the authorities' (or more especially the Treasury's) obsession with the symbols of economic success and stability, such as the balance of payments and the exchange rate, at the expense of real quantities such as goods and services produced and traded. While the French pursued heavy investment programs to expand productive capacity and remove bottlenecks on the supply side, and while the Japanese were preoccupied with encouraging profitable industries and government-assisted investment booms, the British failed to stimulate the levels of productivity and manufacturing investment upon which future prosperity depended, favoring instead the protection of trade and finance. The constellation of forces within the City, the Bank of England, and the Treasury ensured that economic emergencies were met not by fostering more productive output but by curtailing consumption through tax increases and restrictions on credit, and by cutting production and programs of investment. By implication, the fortunes of industry depended on the soundness of finance rather than the other way around, encouraging governments to spurn an active role in productive industry in favor of setting the fiscal and monetary environment in which the business and the public sector could flourish. The result was that strategies for industrial modernization, though occasionally coming to the surface, were effectively thwarted by an overriding desire to reconstitute the City of London as a key international financial center whose interests had to be defended at all costs [Pollard, 1994].

A variant of this critical approach, propagated by Bacon and Eltis, accuses post-war governments of overspending, overtaxing and being overactive creating a structural imbalance in employment. More and more of the workforce in both the private and public sectors were engaged in non-market-related production in non-productive sectors of the economy as government employment was encouraged at the expense of wealth-creation. Whereas, it is argued, industrial employment fluctuated with boom and recession, governments

expanded the public sector to absorb labor in recessions but failed to release such recruits in times of recovery. This led to a mounting burden of taxation on industrialists, a squeeze on corporate profits, and a reduction in the resources available for industrial investment [Bacon and Eltis, 1996].

This argument is both limited and ahistorical. The idea that the state damaged national progress by overtaxing high incomes, over-regulating private companies, and over-extending its own expenditure and employment ignores the fact that in comparative terms, even in the 1970s, tax rates and levels of government expenditure in Britain were not abnormal by Western European standards. Moreover, patterns of state economic activity such as public ownership and the payment of subsidies were commonplace in those countries in Western Europe and Japan which were outperforming Britain. Moreover, British industrial underperformance predates this extension in state activity by decades and a considerable part of raised government expenditure in the 1960s and 1970s was itself a reaction to such underperformance rather than a cause of it. Much of British industry down to the mid-1970s was overmanned rather than starved of labor while public demand for labor for the greater part of those years was met increasingly by higher female participation rather than by a squeeze on manpower in manufacturing.

To Correlli Barnett, the alleged contempt for productive efficiency during much of the post-war period has a clearly recognizable source. Having failed to undertake an adequate "audit of war" which would have pointed unquestionably to the need for industrial modernization and improved technology, Britain he contends surged headlong after 1945 into building a "New Jerusalem" of welfare provision at the expense of restructuring the country's productive base. As a result a wartime conspiracy of evangelical, nonconformist Christians helped to turn the mass of the British public into a "segregated, subliterate, unskilled, unhealthy, and institutionalized proletariat hanging on the nipple of state materialism" [Barnett, 1986, p. 304].

Emotive and attractive though this thesis appears, it is not well supported by the evidence. Britain did not cripple her post-war economy by disproportionate welfare spending. Even in 1950 Britain's spending on social security as a percentage of GDP was lower than that of West Germany, Austria, and Belgium; by 1952 lower than that of France and Denmark; in 1954 it was overtaken by Italy, in 1955 by Sweden, in 1957 by the Netherlands, and in 1970 by Norway and Finland. From then until early 1980 Britain consistently devoted a lower proportion of national income to social security purposes than any other country save Switzerland. More germane is the fact that over the period 1960-81 Britain's annual growth in GDP and the rate of growth of expenditure on social services were both lower than that of all other OECD countries. The "big spenders" on social welfare such as Germany, the Netherlands, and Belgium all enjoyed higher economic growth rates. Furthermore, the increases in government expenditures and tax ratios in Britain until the 1970s were below the average for the more successful economies [Harris, 1991, pp. 43-5]. The share of the public sector was declining in Britain in the 1950s when Britain was already on a relative downward path of economic

performance and competitiveness. The criticism that Britain sacrificed her industrial base in the immediate post-war period in pursuit of a "New Jerusalem" ignores the considerable efforts made by the Labour administration immediately after the war to adopt a policy of industrial modernization. It tackled industrial organization and the balance of public and private ownership, and used administrative controls in a determined effort to raise industrial productivity. The problem the administration found arose less from the welfare illusion than from the liberal illusion within private industry that government had little useful role to play in improving productive efficiency and the allocation of resources.

Why Did Britain Fail?

If, as suggested above, there are few irreducible reasons why Britain should have failed for so long to capitalize on opportunities apparently taken up by her competitors, the question to be asked is why the major political parties of the post-war period clung so tenaciously to policies that were clearly failing to transform Britain's world economic ranking. Were governments able and willing to modernize the economy after 1945 only to be thwarted by powerful producer and labor interests? Or were governments themselves, rather than being passive players creating an enlightened environment in which public and private capitalism could flourish, actively involved in policies destructive of enhanced competitiveness and wealth creation? Or, to tread a little more sympathetically, were the principal economic agents keen to develop Britain's competitive standing but ultimately unwilling to embrace the necessary political, economic, social, and even cultural shifts in attitude and practice needed to tackle the new competition from Europe and Asia?

As a starting point let us consider the view that Britain could not avoid suffering competitive weakness and relative failure for most of the post-war period because of the legacy of her historic past. The argument runs thus. Having inherited a banking system geared more to providing trade credit rather than industrial finance, a technological base that offered limited economies of scale and scope, an industrial structure characterized by atomized, single-plant firms, and a system of fragmented craft-based unionism, Britain was singularly ill-equipped to exploit the opportunities for rapid growth which were based from the end of the nineteenth century upon large-scale, high-speed throughput, flexible labor relations adaptable to the imperatives of mass production, and a financial system capable of meeting the capital requirements of large-scale enterprise. The enterprising spirit which fostered industrial adaptation to contemporary needs in the pre-1914 period did not unfortunately encourage the creation of investment banks, large-scale manufacturing enterprise, or strategic high technology innovation, primarily because the country was locked into a system of uncoordinated market relationships inimical to modernization. Thus small, undersized firms, inflexible attitudes to wages, work practices, and technology, short-term investment strategies, and inadequate use of human capital in the broadest sense were permitted to continue because there was no

mechanism for encouraging either employers, unionists, or the government to undertake risky change without the assurance that others would follow suit. If they did not, the payoff from long-term investment in research and development, or in training, or in altered patterns of wage determination could be appropriated by others [Eichengreen, 1996, p. 216].

Although there is a certain resonance in these arguments one has to guard against taking historical determinism too far. The legacy of individual self interest and lack of consensual policy was well known to British post-war governments and was paramount in the immediate reactions to comparative economic failure before and after the 1960s. What needs further investigation is why, long before the Thatcher years, the need to identify the roots of relative failure and to act upon revealed evidence in a way that would transform sectoral and national industrial performance was continually neglected in favor of pragmatic, short-term policy reactions destined only to perpetuate the inherent causes of relative decline, and why when this realization took firmer hold after 1979 the results proved so ambivalent and disquieting so far as sustainable economic growth to the benefit of all is concerned.

State Industrial Policy

This brings us to the question of the nature and capacity of state industrial policy as pursued for much of the post-war period. It is not as if the state did not have an industrial policy; rather it had a series of industrial policies sometimes couched in developmental terms but often executed or abandoned in light of immediate or short-term financial and economic circumstance. The characteristic short-termism of official policy weakened the capacity of the country to withstand further internal and external economic strains, but neither major political party proved willing to recast both macro and microeconomic policy as a joint strategy for long-term economic advantage.

Britain's loss of comparative performance in export markets during the long boom of the 1950s and 1960s was not primarily the result of inadequate external demand but of a loss of market share because of the country's failure to take advantage of the favorable demand conditions facing it, and especially its neglect of non-price factors such as quality, delivery, and after-sales service. The problem for Britain was not "stop-go" per se as much as the slowness of the underlying trend of output, given that other competitor countries managed to sustain rising output even at below-level trend. Countries such as Germany and Japan used downward phases of the trade cycle to build up productive capacity in a more dirigiste and civilian-focused regime than ever existed in Britain. The British government was no innocent bystander. It was frequently active and preoccupied with industrial issues but in ways which proved limited and defensive, such as rescuing vulnerable economic regions or in feeding illusions of imperial grandeur with intensive expenditure on investment and research and development in the military rather than the civilian sphere, often with little industrial or technological spin-off.

The latter point is worth developing. The British government was not indifferent to science, technology, and industry but for much of the 1950s and 1960s chose to police the boundaries of the non-communist world, posturing as a major if ultimately secondary world power. There is compelling evidence that the consequent high military spending in the period squeezed out innovative investment in civilian production and deflected managerial and scientific talent from key sectors such as electronics and vehicles to military production. The proportion of GDP devoted to defense expenditure peaked at 10.6% in 1952 following the Korean war. By 1955 the UK had the highest amount of total research and development expenditure of any country in Western Europe, but over 60% of the total was spent on defense and less than one-third was funded by private industry. Much of the government's expenditure was directed to the aircraft industry and to nuclear energy, high technology ventures which the country could ill afford. Other countries at the time such as Germany and Japan were reducing such commitments in favor of more strategic industrial investment in sectors such as machinery, vehicles, and chemicals. Direct expenditure on defense in the UK fell from the early 1950s peak to just over 6% of GDP in the 1960s and to 4.8% in 1970. But in that same year the equivalent proportions for France were 4.2%, Germany 3.3%, Italy 2.7%, and Japan 0.6% [Alford, 1996, pp. 279-80]. The relationship between economic development and military expenditure is, however, a complex one since other countries such as France and later Korea were able to combine growing military expenditure with comparative economic advantage. In Britain, however, no real account was taken of the defense commitment in relation to capacity of the national economy or its effects on growth and frustrated technical development over the broader industrial field.

Industrial Policy in the 1960s and 1970s

It is well established that the arm's-length relationship which governments kept with industry after 1950 was partially reversed in the 1960s and 1970s in light of growing evidence of Britain's relative economic decline. Both major political parties created institutions to maintain a dialogue with industry (e.g. the formation of the National Economic Development Council, National Board for Prices and Incomes, and the Industrial Reconstruction Corporation) and both experimented with British versions of indicative planning (the Department of Economic Affairs, the Ministry of Technology, the Manpower Services Commission). Earlier in 1947 there had been a brief attempt to inculcate similar thinking through the work of the Ministry of Economic Affairs and the Central Economic Planning Staff. By the 1970s both major political parties were forging new tripartite agencies of industrial intervention (e.g. National Enterprise Board) and were adding to the scale of public ownership and to the range of industrial controls. It is true that many of these ventures were overturned briefly after 1970 and more fundamentally after 1979 when Thatcher abolished the National Enterprise Board, reduced state aid to

industry, reversed public ownership, and gave much more rein to free market forces.

Why were these moves towards some form of microeconomic involvement by the state so reluctant, late, piecemeal, and short-lived? The dominance of demand management policies touched upon earlier are clearly relevant but in a somewhat different context. In the years before 1973 governments were obsessed with the management of excess demand and were naturally concerned about the threat to full employment, price stability, and economic growth of any uncontrolled growth in money wages, given the bargaining strength of labor. The Keynesian commitment to full employment removed any threat of unemployment resulting from high wage settlements; it was upon the discipline of unemployment that wage stability depended, unless some restraint on money wage growth could be instituted. Britain proved unable to sustain any centralized incomes policy, having come to rely increasingly upon the willingness of organized labor to moderate money wage demands in return for a continued commitment by government to the sustenance of full employment.

However it is no coincidence, as Eichengreen has pointed out, that the European countries which benefited most from post-war economic growth were those which established national institutions aimed at solving those "commitment and co-ordination policies" without which neither wage moderation nor trade expansion could have taken place. The domestic arrangements entered into encouraged economic interest groups to create bonds to lock each other into bargains that would, within the terms of their agreement, help to moderate wage claims and boost investment. Contracts bound capitalists to invest profits and workers to exercise wage restraint, rendering both sides better off. Employers were encouraged to disseminate evidence of non-cooperation to reduce the risk of reneging. And with wages increasingly determined on an economy-wide basis so as to render a bargain to moderate wages attractive to all parties, individual entrepreneurs had less to fear that any decision to invest would be met by workers' demands for a share of any profits thereby produced. Likewise, long-term contracts and statutory wage and price controls, together with critical instruments of the welfare state such as unemployment, health, and retirement programs, encouraged workers to moderate their wage demands and thereby encourage employers to invest [Eichengreen, 1996, pp. 38-72].

Not all Western European countries proved adept or willing to establish such socio-economic institutions and it is Eichengreen's contention that the different institutional responses "go a fair way towards accounting for variations across countries and over time in European growth performance." What is significant from our perspective is that although France and Italy, for example, were not readily forthcoming with such responses, a dominant feature of European experience is the failure of Britain to develop the kind of domestic institutional arrangements that eventually emerged among her closest competitors. Britain's "settlement" was "tacit, fudged, and contingent rather than an explicit working strategy to improve economic performance" [Middleton, 1996, p. 453].

In European countries enjoying catch-up after 1945, the faster that growth was, the greater it seems was the willingness of workers and capitalists to defer current consumption in return for future gains. But Britain failed to address the distributional problem of who would bear the costs and who would reap the gains of structural change. Issues of managerial prerogative and trade union perceptions of authority and power remained critical. This was not so much strong as weak tripartism. Corporatist tendencies in Britain had long been muted by the absence of any effective working relationship between the authoritative centralized employers associations and trade unions, and by the unwillingness of the state to do much more than encourage each party to seek support for remedial policies from within their own self-interested constituencies. Without a political settlement to distribute the gain and pain of industrial modernization, incorporating the legitimate concerns of employers about profits and the right to manage, and of the trade unions about redundancy, labor mobility, and enforced retraining, there was every likelihood that competing interests would continue to undermine a consensus to pursue growth.

The sporadic efforts at state-led industrial modernization were affected also by the locus of power within government. The Treasury, as guardian of the spending departments, was allied closely to City which opposed central government initiatives that might threaten its financial interests. Treasury officials reacted defensively even to the limited efforts at corporatist planning in the 1960s and in similar fashion to the administrative initiatives of the 1970s aimed at encouraging industrial intervention. What state effort at modernization remained was reduced to conciliation and persuasion rather than cooperative alliance along Japanese lines. The Treasury was staffed by individuals able to use their well-honed intellect to preserve the essentials of macro-financial policies and to construct powerful arguments in defense of past policies almost as a policy objective in itself. Indeed, once an institution within government became involved in selective industrial intervention, threatening executive decision making and the commitment of resources elsewhere, it came under threat from within the Whitehall establishment. When, for example, the National Economic Development Council, a creature of the flirtation with planning in the early 1960s, settled on seeking a 4% growth rate (the ruling rate was under 3%), there was more than a suspicion that the unrealistic target was not challenged by Treasury officials "since it served their interests in discrediting a planning approach to economic policy" [Alford, 1996, p. 261].

Nor it must be said was there much enthusiasm from organized business or labor for any more active state interventionist policy towards industry. Industrial leaders, under the aegis of the Federation of British Industries, flirted briefly in the late 1950s with the idea of indicative planning but there was little sustained or coordinated pressure thereafter as members sought to protect their commercial and personal autonomy. Neither organized labor nor the Labour Party managed to establish a convincing alternative economic strategy which put industrial modernization to the fore without it appearing as naked socialism. In the 1960s the Labour Party committed itself to an industrial policy that sought to reverse industrial decline but it failed to achieve the necessary

institutional reform and proved unable, like governments before it, to resist fashioning policy to meet immediate trading and financial crises, the very crises which enabled the Treasury to maintain its grip on the conduct of policy.

The Treasury was of course obliged by the original Bretton Woods agreement of 1944 and later by its obligations to the Sterling Area to remain sensitive to the needs of external balance and short-term stabilization for the sake of preserving sterling as an international reserve currency. Given the Treasury's central role in policy formulation, it was inevitable that attention would be drawn away from the long-term growth prospects of the "real" economy. But exchange rate crises were a consequence of the neglect of productivity and competitiveness; manipulation of such rates were neither a cause of nor a solution to such weaknesses. With Britain wedded to seeking an international power role in the shadow of the United States and with a Treasury sold as it had been in the 1920s on the belief that internal economic stability depended on the ruling exchange rate, it was little wonder that sporadic efforts to redirect policy towards structural modernization remained just that.

There is little doubt too that the structure of the financial market affected the British government's capacity to exert industrial leadership. It is not that industry was systematically starved of funds which were being ruthlessly funneled abroad to satisfy the rentier or that manufacturers were being crippled by unsympathetic national banks. Historically, British industry had financed most of its investment from internal resources rather than from credit. The problem went much deeper. In Britain the financial and industrial worlds remained separate. Even if a government wished to use the entrenched market financial system for the purposes of industrial modernization it would have found it difficult to do so since it lacked any real influence on the allocation decisions of financial institutions. Moreover, until the late 1970s, the Bank of England was concerned primarily with managing the national debt. Government could not effectively manipulate interest rates for the purposes of industrial development because it was already manipulating them for the purpose of financing its own indebtedness.

It is in this context that the City of London proved an obstacle to industrial rejuvenation. Finance capital wanted maximum flexibility to seek maximum profit with maximum liquidity. The City much preferred to lend to the state and to international borrowers than become involved in the uncertain world of industrial capital. This preference reinforced its determination to support government policies that safeguarded its financial interest. With the strengthening of London as an international financial center a major priority, the City remained determined to concentrate on flexible liquid finance capital and to distance itself from productive capital and from state spending and borrowing that might damage its international competitiveness. The fact that industry was not demanding more substantial help from the City is only part of the story. Insofar as the country required a thoroughgoing industrial strategy as a step towards lasting economic success it had to contend with the twin forces of the Treasury and the City. A rationalizing state was always likely to be stillborn in Britain.

Foreign Comparisons

The brief references made so far about the conduct of economic policy might suggest that Britain could usefully have drawn lessons from abroad, at least to retard her lagging industrial competitiveness. But intriguing though the evidence was of indicative planning in France, of the social market economy in Western Germany, and of the strategic state directives in Japan, it should not be assumed that Britain missed a golden opportunity to learn. For much of the time she was not in a listening mood and the power of vested interests within government, labor, and business circles makes it too facile to assume that all that was required for Britain to rejuvenate her industry and economy was a replication of best practice from other countries.

The Japanese comparison was of course intriguing. The central role of government in strategic planning, allocating resources among industries, "picking winners" in sectors or firms and subsidizing their financial needs, promoting industrial restructuring among individual industries, and protecting "infant" industries through high tariffs and non-tariff trade barriers stood in stark contrast to British practice. Recent literature is beginning to challenge perceptions of Japanese policy, shifting attention away from earlier descriptions of a powerful bureaucracy steering the economy with the use of incentives and sophisticated administrative interference towards a more critical view of a divided, ineffective, and at times counterproductive political and bureaucratic apparatus. Although key industries such as iron and steel, machinery, electrical equipment, and chemicals gained from MITI's strategic beneficence, there were many other industries such as cameras, bicycles, tape recorders, and watches that succeeded without overt government promotion. Nor was MITI's criteria of industry selection (namely, choosing industries with a high demand elasticity relative to world income or according to the prospects for improved productivity) based on any firm theoretical footing.

Nonetheless such revisionism has not entirely removed the "strong" view of the role of government in Japan's post-war economic success. Even if Britain's major competitors gained much less from state involvement than it might appear, it does not follow "that Britain was that much less in need of it" [Alford, 1996, p. 260]. The essential problem was that the complex management practices, labor relations, forms of education, and training upon which the Western Europeans and the Japanese were fashioning their industrial growth and performance arose from particular and very different synergies of culture, technology, and patterns of industrial and social organization. That is not to imply that countries are forever wedded to their past as the rapid economic convergence of the post-war period demonstrates. Japan was very willing to adapt, borrow and refashion against past practice. The critical point is that the industrial, political, and financial will was there to be exploited for the purpose of national growth and success. Britain consistently failed to create a coalition for growth as costly defense expenditure and a failure to modernize the state machine led the powerful interest groups most likely to be affected by intervention – the unions, businessmen and investors – to seek their own

objectives, leaving the state to mend the economy rather than modernize it. This is not a straightforward defense of Olson's thesis of "distributional coalitions." The essential difficulty facing Britain was not so much the existence of organized producer groups able to veto policies they opposed, so much as the unwillingness of governments to broker the terms upon which industrial modernization could proceed.

The policies which the Thatcher administration adopted to reverse relative decline were altogether more dirigiste. Strict control of the money supply over the medium term would attack inflation and the growth of public expenditure, while the blast of competitive market forces, together with appropriate legislation, would reduce the monopoly power of trade unions and the dependence of the public and private sectors on those subsidies that had previously protected them from the consequences of market failure. Privatizing public assets and forcing industry to be "leaner" and "fitter" without resort to government direction or finance would work with other polices designed to encourage an enterprise culture within the small business sector in particular to bring about an "economic renaissance."

There could have been no clearer rejection of the "strategic" or "planned" role of the state in economic or industrial management. The jury is still out on the Thatcher "miracle" given that judicious use of statistics, start dates, and value ridden judgements as to the price an economy must pay to enforce a change in direction and performance allow diametrically opposed conclusions to be drawn. But in terms of industrial policy and performance, it is noteworthy that improved productivity came largely through the greater exploitation of the fewer people left with jobs after the massive shakeout of manufacturing employment during 1979-81. Moreover, serious supply side constraints remained. The expansion of consumer demand, produced in part by the government, led to a surge in imports as the manufacturing base struggled to meet domestic requirements. The privatization program initially made a fundamental error of giving greater priority to the question of ownership rather than competition. But ownership transfers without adequate competition merely exaggerated the problems of industry, arguably leaving the telecommunications and gas sectors in a state of market failure worse than before, denying the nation the potential of further productivity gains.

Conclusion

The countries which capitalized on their post-war opportunities to gain and retain comparative advantage did so by considering the adaptive capacity of their industrial structures and by examining how they could mold and alter inherited structures, markets, and technology to medium- and long-term advantage. What Britain's competitors realized more clearly than she did was that the state could undertake selective intervention in growing, tertiary, and declining industries; that it could shape tax and research and development expenditures, especially in high technology sectors, and invest in human capital accumulation. The cumulative effect of doing so, as Japan demonstrated so well, was that

countries could maintain their competitive advantage in specific international markets to such a degree that over time they were able to reshape the comparative advantage of the nation as a whole.

Britain never had such a development strategy. There was no effective political ideology after 1945 that enabled the country to build upon the opportunities for growth and modernization which presented themselves to most Western European countries and to Japan. The capacity Britain displayed was to reproduce by default the long-established structural weaknesses which worked to hinder any effective fusion of macro and micro economic policy. The Japanese ensured that expansion went into investment and that an expansion of industrial supply preceded consumption growth. Britain failed to place her productive base on an upward curve partly because governments did little to encourage or reward enterprise. Instead they fostered the belief that medium-term investment would suffer the consequences of government deflationary responses to external events.

The growing realization of relative economic decline in Britain in the years after 1960 did persuade both major political parties to review the appropriate role of the state with regard to industry only to abandon the quest whenever Britain's international economic situation seemed threatened. The historical legacy of individualism and self-sufficiency, the priority given to the autonomy of the firm, and the separation of government, banking, and both sides of industry denied the country any anticipatory industrial policy capable of creating long-term national economic advantage. Outsiders (government, bankers, and unions) who did not "understand" industry were not meant to interfere in decisions that were properly a matter for management.

British industrial policy from the 1960s and earlier was reactive, passive, and limited. The country never had a proactive state with a clearly defined policy backed with sufficient resources to influence and coordinate activity across the administrative spectrum. What few efforts were made to create interventionist policies in industry failed because they opened up distributional conflicts between capital and labor sufficiently powerful to undermine the creation of a national consensus in favor of industrial restructuring and economic growth. There was no systematic means of socializing the costs of adjustment; measures of social support for crisis management were haphazard, with the burdens bearing harshly on individuals and particular industrial regions. When more ideologically-driven policies were introduced by the Thatcher administration after 1979, putting the defense of the free market as the key to industrial success, the results were mixed. The largely unregulated market failed to trigger any reskilling of the labor force, or to lead to the growth of new sectors, or to encourage substantial internal investment in either industry or education as a means of improving productivity further.

The strong British financial sector was a world player largely disinterested in domestic industrial concerns while the decentralized trade union structure, jealously safeguarding its autonomy and collective bargaining rights, was never destined to force change. And given the long absence of any state-led industrial modernization, British businessmen on the whole were less familiar and comfortable with ideas of intervention, consensus, and strategic development from the center.

Any reappraisal of Britain's relative decline from the 1960s and its alleged economic betterment from the mid-1980s needs to consider afresh the role of government industrial policy, broadly defined. Those recent investigations of post-war economic performance which draw upon the new growth economics have given prominence to the need for greater historical investigation of the neglect of human capital, innovative investment, and the diffusion of new technologies. They have also pointed to the importance of institutional arrangements and to the constraints such arrangements have placed on the policy choices before government [Crafts and Toniolo, 1996]. Encouraging though this is, it does not go far enough since it relies heavily upon the alleged negative impact of the "postwar settlement" on efficiency and restrictive practices. We need to go further and assess the overall pattern of policy, the fate of the arguments underpinning the alternatives on offer, the shifting attitudes towards regulated and unregulated market forces, and the origins and fate of interventionist policy, not to suggest that governments should have been picking industrial "winners" or developing a stylized policy of corporatist intervention, but to investigate why the conditions favorable for improved productivity, competitiveness, and industrial development over the longer term were so regularly and effectively bypassed.

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