A CRITIQUE OF
THE CONCEPT AND PRACTICE
OF "PLANNING AGREEMENTS"
BETWEEN GOVERNMENT
AND MAJOR COMPANIES

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A Critique of the Concept and Practice of "Planning Agreements" between Government and Major Companies.

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Summary

Company Planning Agreements are a form of government intervention designed to conform the planning of large companies more closely to the economic and social plans of government. It was argued in 1973 by Stuart Holland and others that a major reason why the 1965 National Plan failed to raise the rate of economic growth was that very large, usually multinational companies (which he called the meso economy) were not involved in the planning process and exercised the power to frustrate the Plan in pursuit of their own objectives; accordingly, they should be compelled to make planning agreements.

In office, the 1974 Labour Government abandoned their intention of making planning agreements compulsory in face of strong opposition from business interests - and only two voluntary agreements were signed. With Labour in opposition from 1979, however the concept has continued to feature in The Alternative Economic Strategy (in several variants), but with less emphasis since the 1987 General Election.

In this thesis the background of indicative planning from which the concept emerged is examined but it is also argued that the broader and longer-term social and cultural context and the role of interest groups in the political decision-making process must be understood if the concept and practicability of company planning agreements are to be assessed.

Criteria for assessment are whether the concept is well designed to promote social justice and whether they are likely to be effective in practice. It is concluded that, although policies to promote competition are succeeding in fostering economic growth, planning agreements could still play a useful role in reducing unemployment and steering businesses towards other economic and social objectives.
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INTRODUCTION

Planning Agreements are between government and very large firms, usually defined to include less than the top 200 operating in the UK, although others might make voluntary agreements. In a mixed but predominantly private enterprise economy they are designed to influence corporate behaviour in a politically desired direction towards economic and/or social objectives.

Economic objectives include the promotion of economic growth and, more specifically, reduction in the level of unemployment, to be achieved by stimulating/encouraging business growth and/or greater efficiency, either through new ventures and developments or through diversion of resources from elsewhere. Social objectives may include adjustment of corporate policy to take fuller account of externalities, such as environmental protection, and promotion of industrial democracy and wider participation in decision-making generally. The sort of corporate policies to be affected include investment, especially location of investment, and manpower planning and training. The idea is not, however, for there to be detailed and regular intervention in business decision-making but rather an arms-length relationship between government and the firm once the agreement has been signed.

The objectives are generally wide in scope and ambitious and so company planning agreements are usually just part of an overall programme.
Their introduction or proposed introduction is commonly in association with a programme of selective increases in public ownership and control. Development of the concept in Britain signalled belief on the left of the political spectrum that Keynesian macro-economic demand management was not an adequate substitute for socialist interventionist planning of the economy - at the micro as well as the macro level. On the left, the crises of the western economies in the seventies seemed to bear out that belief.

To those on the right, the sixties - and the seventies - also suggested that Keynesianism was not working. But on the right the solution proffered is different: monetarist macro-economic policies to stabilise inflation plus supply-side micro-economic policies, including privatisation, to stimulate economic growth through a more competitive business environment and tax reform to encourage enterprise and effort. Taking account of these developments in post-1987 rethinking in the Labour Party there, is a shift away from company planning agreements and public ownership. A question for consideration is whether this shift is well-founded in economic analysis or merely represents a tactical move to recapture more of the political middle ground.

The central issue to be addressed in this thesis is:

1. Are company planning agreements (CPAs) a more realistic and effective way of conforming activities of very large enterprises to...
the public interest than policies to promote competition?

This raises the following subsidiary issues:

2. What is the public interest?

This is answered in terms of justice, in particular justice for the poor. This requires efficiency, including social efficiency, in the use of resources, and so:

3. What are the barriers to efficiency and in what way can CPAs help remove them?

Principal tenets of this thesis are that these barriers are not exclusively economic but embedded in the social structure and culture, that CPAs must work with the culture just as much as market forces and that full account must be taken of the influence of pressure/interest groups and the public choice perspective on the political decision-making process. It also follows that, as well as X-inefficiency, companies' behaviour may be socially inefficient (externalities), while in the case of a multi-national company its international obligations may clash with the (national) public interest.

There are many varieties of company planning agreement. They may be compulsory or voluntary, bilateral or tripartite (including trade unions
as well as government and management), part of a national indicative plan or not, carrot and stick (financial and other inducements, backed-up by sanctions) or just carrot.

It is important to establish the historical context in which the concept was born: why more intervention in the economy was thought necessary and why, in the form taken, it appeared to fail. The issue, however, is not whether with CPAs the indicative plans of the sixties would have succeeded but:

4. What is the potential contribution CPAs might make in the nineties?

This involves social and economic structure forecasts and discussion of "green" arguments against economic growth.

These basic issues and their implications are explored in Chapter I in which criteria for assessment of CPAs are established. The Literature Survey in Chapter II draws out various contributions to discussion of the issues and points to some gaps. It is necessary to set the genesis of the CPA concept in the context of indicative planning and so Chapter III surveys the history of planning in theory and practice in Britain, with reference to other countries in Western Europe as appropriate.

The case for CPAs is examined in Chapter IV with consideration of the empirical basis of the deficiencies in the economy and in economic policy
which they are claimed to cure. Chapter V then discusses the arguments against CPAs, mostly, but not exclusively from the liberal right. The importance of the social and cultural context in which CPAs would operate is stressed in Chapter VI.

The evidence is drawn together and the concept and effectiveness of CPAs assessed in Chapter VII. This involves consideration of likely future trends in society and the economy, and findings from a survey of the use of forecasts in planning by business, so as to illustrate the potential that company planning agreements might have in practice.
I THE CONCEPT OF PLANNING AGREEMENTS AND CRITERIA FOR ASSESSMENT

Planning Agreements are between government and companies and may be voluntary or may be made compulsory by government. They are usually conceived of as between central government and large companies only, but they could also or alternatively be between regional or local government and smaller companies. They imply intervention and involvement in the normal planning processes of companies and may also include stimulation of more extensive or rigorous planning than companies have hitherto practiced. Investment and manpower plans are of particular importance in Company Planning Agreements (CPAs).

1. Stuart Holland and Labour’s Programme 1973

The concept, which in its UK context was embodied in the Labour Party Programme (1973a), owed much to the work of Stuart Holland which he subsequently expanded in "The Socialist Challenge" (1975). Holland’s starting point was the very general dissatisfaction with the performance of modern capitalist economies and Keynesian economic planning in the 1960s. He shares this starting point with many others who have very different preconceptions and set off in very different directions, towards very different destinations, eg disciples of Hayek (1944) and Robertson (1983). His destination is a society in which individuals while still motivated by self-interest are also given a strong incentive to act altruistically, "in which it is easier to secure self-fulfillment through serving society than
through the exclusive pursuit of self alone" (p 37). The route to his
destination is through (a) a transformation of the economy by use of
effective planning and simultaneously (b) a transformation of the class
structure of British society. Our chief interest is the crucial role of
planning agreements in (a).

Holland believes for effective planning there must be public ownership and
control of the dominant means of production, distribution and exchange.
Emphasis on extension of public ownership clearly distinguishes Holland
from liberal reformers but stress on control (a possible alternative to
ownership in some cases) and limitation to dominant means of production etc
separates him from more fundamentalist socialists such as Glynn and
Harrison (1980). It may be inferred he would argue against the latter
that while the trend to national and international monopoly — according to
him a major obstacle to Keynesian planning — confirmed Marx's analysis,
Marx did not foresee the increased role of the state in the post World-War
II capitalist economy. Accordingly, Holland claims to transcend Marx (and
Keynes) in showing how the state can and must use its "leverage" (a
favourite word of Holland) on private enterprise to realise social
objectives.

Keynesian economic planning has failed, according to Holland, because it
has operated only, or overwhelmingly, at the macro level while the
concentration of industry, in particular the growing dominance of
multi-national companies, has led to the emergence of a new "meso-economic
sector (between the macro and the micro. This means that despite the break-up of family-controlled businesses and (indirect) wider share ownership through insurance companies and pension funds, economic decision-making power has become yet more concentrated. It also means that business objectives may diverge further from social objectives, especially but not only in cases of transnational control of businesses, and that businesses may have the power to resist Keynesian policy instruments such as taxes and subsidies. He does not argue that big business is necessarily X-inefficient but that it may be socially inefficient, for example in respect of investment levels, international trade, job creation and regional development. That is to say, a large firm may ignore external costs (and benefits); but these may affect the efficiency of the economy, as well as having adverse social effects, and so the negative feedback may actually reduce the profits of the firm. Increased overseas investment may be best suited to further the company’s objectives, resulting in higher overall growth and profits; but it may not enhance employment and consumption at home. On environmental issues, society and company interests may diverge. Short-termism, encouraged by stock-market rating considerations may constrain company action; in a recession it may be in the company’s interest but not in the long-term interests of society to cut back on investment and manpower training outlays.

It is here that the idea of planning agreements comes in. Firms, whether publicly or privately owned, are to be left to devise their own corporate plans but the largest or dominant ones obliged to accept certain additional
constraints and objectives imposed by government. A major problem is that the costs to the company of negotiating and administering the plan together with the costs of meeting new social obligations imposed in it are more apparent and calculable than the benefits it is hoped will accrue through improved economic performance in the economy at large.

Holland envisaged something like 180 companies or enterprises (private companies and public corporations) being required to enter into Company Planning Agreements with the government. In the negotiations setting up a CPA, trades unions would have an important role: either negotiating directly and independently with the government, or acting together with management and the government. They might, or might not, sign the final Agreement. In public enterprises, union involvement could be greater still, especially where a measure of workers' control was possible. It is to be questioned whether CPAs are not a very roundabout and clumsy means of increasing industrial democracy and worker involvement in decisions affecting them that might more easily be reached by profit-sharing and/or employee share ownership schemes. If an "open books" requirement were met, however, it might not be necessary to have formal written CPAs. But Labour's "Programme 1973" (still one of the fullest expositions of the coverage of a CPA) envisaged that there would be written agreements covering the following seven areas:

1. Provision by the company of information, for the past and the future, on investment, prices, development plans etc.
2. Use by the government of this information to set its planning objectives and plan resource redistribution to meet them.

3. Securing agreement on company action, e.g., jobs in a Development Area, while leaving the firm free to choose its own tactics within the agreed strategy.

4. Provision for regular revision of the CPA.

5. Provision of a channel for selective government assistance.

6. Provision of a systematic basis for obliging companies to be "accountable".

7. Publication of a detailed "annual report to the nation" on the record of companies with CPAs.

The original concept was that CPAs would be compulsory in the meso-economic sector. Opposition to this (see Chapter III) led to their being made voluntary. The official discussion document (Department of Industry, 1975) made it plain that CPAs would not be legally-enforceable contracts but statements of firm intention. Nevertheless, signing an agreement could be made a condition of the grant of discretionary finance. Holland argues that the burden on companies of providing the necessary information would not be great, since it is the sort of information required of subsidiaries by their head offices. But the publication of it and the leverage given to the government would make possible a shift to a "dominance of public accountability and control" and would also lead to more informed wage bargaining (as well as some possible conflicts of interest). Such a system of planning would be superior to a purely indicative national...
macro-economic plan because it would have imperative elements - the enforcement powers, with the ultimate sanction of nationalisation and lesser sanctions of using public buying power, public enterprise competition and withholding of financial assistance for non-compliance once an agreement had been made. It would also be superior to Labour's 1964-1970 "National Plan" which, with its check-lists of priorities for government action, was already more than purely indicative, because it would recognise and take account of the meso-economy.

2. Criteria for Assessment

The fact that CPAs come about through government intervention means that political as well as purely economic issues are involved. In a democracy this means some social issues may be included through force of public opinion. In this study, the concept and its practice or potential practicability are assessed and judged on both narrowly economic criteria and in the light of wider institutional, social and cultural considerations. Criteria for assessment will be:

(a) whether the concept of Company Planning Agreements is well designed to promote "justice" (distributive, not corrective), and

(b) whether CPAs are likely to be effective in practice.
Justice is not a word commonly used by Holland but the development of social justice is implicit in the objectives of industrial democracy and a society motivated more by altruism than exclusive pursuit of self-interest. Furthermore it is explicitly noted (p.40) as a fruit of "a major redistribution of wealth" brought about through the socialist social contract between government, business, trade unions and the community in which CPAs are to play a prominent role. The prefix social raises the basic issue of individualism versus fraternity.

Most recent discussions of the concept of justice begin with the rigorous and far-reaching arguments of Rawls (1972). Since they are set in and developed from a social contract context, it is clear that it is indeed social justice that is Rawls' concern. As he puts it, "Justice is the first virtue of social institutions." The principles of justice are, according to Rawls, innate in man and may be discovered by consideration of the social contract that would be agreed by members of a society (advanced beyond the subsistence level) meeting together in a "veil of ignorance" about each individual's sex, mental and physical abilities, social status etc. Assuming that individuals meeting in such circumstances are motivated by self-interest, Rawls argues that they would arrive at two principles of justice for the ordering of society:

1. Equal right for each individual to basic liberties, compatible with like liberty for all;
2. Any social or economic inequality must be justified by being
(a) of the greatest benefit to the least advantaged
(b) attached to positions open to all under equal opportunity.

In cases of incompatibility, Principle 1 takes priority over 2, and 2(b) over 2(a): liberty is a more basic right than equality.

Thus Rawls, in 2(a) especially, opposes the Utilitarian objective of the greatest good for the greatest number, by inference, regardless of the loss suffered by a minority. Are Rawls' principles, however, practical politics in a democracy? In a society (A) with a pyramid structure of income and wealth, the poor might be expected to erode the liberties of the rich in pursuit of less inequality; in a society (B) with the greatest numbers above the floor, the majority might have little concern for the least advantaged.
In practice, individual liberty and inequality would be expected to survive in a democracy of shape A partly through the exercise of the wealth of the rich and the power and influence it buys, and partly through the self-interest of the poor who nourish the ambition of one day being rich and so enjoying the fruits of inequality. Shape B, however, is more typical of an advanced economy and raises more important issues of justice and economic planning. In particular, we shall need to ask the question: in whose interests will CPAs be operated? According to Holland (1975) planning in a capitalist system may be used to alleviate poverty but will still perpetuate "the capitalist mechanisms which continually create such social injustice" (page 34). He would not agree that action on Rawls' Principle 2(a) could be inspired by self-interest alone: that individual fulfilment lies solely in the pursuit of self-interest is "capitalist mythology". Evidence to the contrary is found in "the altruistic tradition of progressive Christianity" and among the "educated young.....(who) choose...careers...(in)social service...at real cost...(finding) a fuller form of self-expression than the narrow self-interest of progress through a capitalist hierarchy." (page 37)

Rawls is thus criticised (though not explicitly by Holland who does not mention him) for an individualistic concept of human nature and disregarding man as a social being motivated in part by altruism and social concern. His individualism, however, is not as naked as some critics make out. Self-interest requires the promotion of self-respect, a person's sense of his or her own value, and it requires appreciation from others. The
better-off, both the rich minority and the above-the-floor majority, in order to win the respect of others, would want society to be ordered according to the two principles. Thus society is given the necessary element of co-operation and mutual support, fraternity as well as individualism. Can a social conscience thus be grounded in self-interest alone?

One critic who thinks not is Preston, a social theologian trained in economics (1979). He believes that a social theory based on individualism, on the assumption that man is motivated solely by self-interest (from which any display of altruism is derived), is based on false premises. Preston argues (p72) "that self-interest is a powerful and necessary element in human life which must be allowed for and harnessed......The free market, which depends on it, is for certain social and economic purposes the most useful instrument yet devised by man, but it needs to be set within a strong social framework......society is prior to the individual....individualism itself only works if a commitment to the common good can be counted on." Such a commitment or moral consensus was assumed by Adam Smith, and its erosion amid the moral pluralism of the twentieth century is seen by some, eg Hirsch (1977), as eroding the market capitalist system itself.

Christian tradition, both Catholic and Protestant, has stressed the organic and corporate as well as the individual nature of human life. Preston refers (p75) to the Reformation doctrine of the Orders of Creation:
the Family
the Economic Order
the Political Order
the Community of Culture

These are basic structures of life which are not chosen, constructed, by man, but are given. That is not to say that they are absolute or at any time not in need of reform. But they do express the fact that man is inherently a social animal, not motivated solely by individual self-interest.

For Holland, man's social nature is expressed in the form of class solidarity, thus stressing the Economic Order. We shall argue later (Chapter VI) that the CPA debate has been conducted on too narrowly an economic and political a basis and from too short an historical perspective. We shall draw on the ideas of those who have in effect stressed the other orders as well, premising an altogether more complex social structure.

In relation to our immediate purpose of developing the criteria for assessing the CPA concept, we find useful the work of a group of SDP sympathisers in Carey (1985). In contrast to Preston, they argue that a socially just, ie fair, society cannot be based on expectations of altruism from specific sections of society, and that any society so based will be unstable, lacking in equilibrium: "...the basic premises of Socialism
...and Conservatism are unjust because they demand altruism, the former from the community as a whole and the latter from the least advantaged, and when, inevitably, this is not forthcoming both philosophies must fall back on the power of the state...... What is required is a set of principles based on self-interest rather than either selfishness or altruism:* (page 9). Such principles they find in Rawls.

They accept Rawls’ belief that the liberties of individuals are inherent in human nature, not the gift of society, and that the basis of a free society must be contractual. From this viewpoint, justice, if it is to promote stability, must be recognised as being fair. It will be universally recognised as fair if it enables the individual to reach "equilibrium", the best situation that he/she can reach, consistent with the rights and freedoms of others. "Justice as fairness is therefore self-generating because it is objectively recognised and personally acknowledged to be necessary and just": Carey (1985) page 24. Conversely, an unjust society, ie one the bases of which are inconsistent with Rawls’ two principles of justice, will be inherently unstable. It must be recognised that the definition of "equilibrium" differs from normal economic usage: low level equilibrium with substantial underemployment would not be fair or best. Furthermore, no attempt is made to stay within the bounds of Pareto equilibrium - that no one is to be made better-off at the expense of anyone else.

Rawls' principles lead him to propose the general shape of the institutions
of a just society. In the realm of economics, these include five branches of government concerned with "distribution":

1. *allocation* - to check competition-inhibiting concentration of market power, undertake social cost-benefit analysis;
2. *stabilisation* - to maintain full employment;
3. *transfer* - to maintain the social minimum;
4. *distribution* - to raise taxes on property and (probably) expenditure (rather than income);
5. *exchange* (optional) - to provide public goods other than those necessary for justice.

There is no explicit mention of growth, although this could be counted as inter-temporal distribution with appropriate time preference discount rates. Apart from this, the tasks for Branches 1 and especially 2 in which CPAs have their most obvious role seem much more difficult now than when Rawls (and Holland) wrote, but their objectives are clear. Consideration of Branch 3, raises more fundamental issues. The social minimum is to be set to maximise the expectations of the least advantaged, not only now but in future generations. Its height should not, however, be so great as to imperil incentives and the "just" level of capital accumulation that are necessary to ensure that economic growth on which the expectations of the least advantaged depend. Widely varying judgements can be made on this. Furthermore, is the social minimum to be an income to be freely disposed of by the recipients as Rawls prefers? Or should it include benefits-in-kind
and vouchers for education, health, etc as Carey and his colleagues propose, on the grounds the disadvantaged have insufficient knowledge of what is good for them and their children and grandchildren? It is not at all clear that CPAs can assist in 3 and we shall need to consider the claims based on public choice theory that negotiations on CPAs might be so influenced by producer interest groups (government, business and trade union) as to work against the public objectives of this branch.

It is apparent from this discussion that Rawls may be used and abused from a variety of political positions, but it seems reasonably clear that his individualism does not mean fraternity is unavailable or unimportant, nor that it precludes the existence of a common concern for fairness for the least advantaged. We conclude it is not necessary to accept his assumption that the individual is prior to society, or that the priority of liberty over equality would be self-evident in a less affluent society, to use his concept of justice as fairness, including preference to the least advantaged, to appraise economic and planning systems and the role of CPAs.

The second criterion given the first that the CPA concept is well designed to promote justice, is that company planning agreements will work - be effective in practice. There are doubts about whether companies' planning is sufficiently sophisticated for such a system to work: evidence will be obtained and assessed on this point. Also an assessment will have to be made of the balance of costs actually incurred and implied through any impairment of the efficiency of the competitive market system against the
supposed benefits to the economy and society derived through CPAs and
planning. This raises questions about how "big business" actually behaves.

Long ago, Baran and Sweezy (1966) mounted a devastating attack on the
concept of "the soulful corporation". Berle and Means (1932) had argued
that the modern, large-scale corporation would inevitably develop into a
purely neutral technocracy balancing a variety of claims on the basis of
public policy rather than private cupidity. This led Kaysen (1957) to
conclude that the modern corporation is a soulful corporation, no
longer seeking to maximise profits but fulfil its responsibilities to
employees, customers and the general public as well as shareholders.
This seemed to leave indeterminate how resources are to be allocated.

Earley (1957), however, demonstrated from studies of management literature
and his own surveys a growing emphasis on cost reduction, revenue expansion
and profit maximisation and argued that increased employment of economists,
market analysts and management consultants and deployment of operational
research and management accounting techniques would enhance the ability of
big business to attain its goals. These goals, which he argued were not
inconsistent but necessary one to the other, were high management income,
good profits, strong competitive position and growth.

Baran and Sweezy cite Earley approvingly, pointing out his stress on the
limited information constraint. This means that firms cannot envisage an
absolute maximum level of profits to be attained but that in a given
situation and time scale can seek the maximum increase in profits. This is in line with the "Austrian" view of competition as a process not an equilibrium state. They conclude that large corporations in a modern economy are better equipped and more intent to achieve profit than the smaller scale enterprises of former times. The soulful corporation does not exist so that if business has social obligations they must be imposed from outside.

This still leaves open the question of the external effects of the large corporation's pursuit of profit. Are giant corporations able to take advantage of declining long-run marginal costs in a monopolistic way, protecting themselves behind entry barriers and exclusive or highly favoured infrastructure investment? Have the past twenty years been marked by greater efficiency and harmonisation of objectives or is big business typified by X-inefficiency and run in the interests primarily of management with safe and stable growth rather than profits/efficiency in use of resources the main objective? Are reported profits manipulated, especially through transfer pricing by multinational companies, for tax advantages? If the answer to some or all of these questions in the affirmative, then there is a case for more government intervention with new means such as CPAs. If not, then it would appear that the competitive system is working and that CPAs would be at best an irritant and at worst a major impediment to the free running of the economy.
3. The Role of Government

Overarching both proposed criteria of assessment is the role of government. It is an ever-present part of the economic and business environment, a critical contextual element. It is essential to determine in what interest government relationships in the economy are conducted; it is naive to base a programme of reform on the assumption that government will determine its policies and play an interventionist role in the economy guided solely and purely by high-minded perception of the interests of society as a whole. In a democracy with an advanced industrialised economy, most of the voters will be relatively poor. But policy will not necessarily be operated in their interests. Various interest and pressure groups will exert influence on both voters and politicians. Politicians also have their own interests to pursue through the attainment of power through attracting votes.

The rationalisation of this understanding in Public Choice theory does not destroy the case for planning as against free markets. But it does demonstrate that all policies and their operation need careful examination. If the way the political system - both the political institutions themselves and related institutions - works is understood, then policies can be assessed in terms of what interests they are designed to promote and whether they are likely to promote those interests in practice. If the objective of the exercise is to promote economic efficiency and growth and social development in the interests of the relatively poor, then it is
important to identify which interests in society are likely to be obstructive and how their influence can be outbalanced.
The basic text on planning agreements under study is Holland (1975) "The Socialist Challenge". His was the formative influence on the new Labour Party policies on economic planning developed in the early 1970s. These policies were developed and published by the Party in 1973 as an "Opposition Green Paper" on the proposed National Enterprise Board (1973a) and "Labour's Programme" 1973 (1973b). Thus the book followed rather than preceded the adoption of the policies (although Hare, 1985, reports that it was started in 1968. It is a substantial book (414 pages) with full notes and references but it is primarily polemic or evangelical in tone and purpose rather than academic or apologetic. Putting on one side and giving too little weight to the elsewhere well-documented macro-economic policy deficiencies, he argues that "indicative planning" did not work in Britain in the 1960s very largely because insufficient account was taken of modern industrial developments, especially the rapid increases in the concentration of manufacturing industry and the size, power and influence of multi-national companies. Stuart Holland coined the phrase "meso-economy" for the strata of the economy comprised by giant companies which are below the macro level but, since their behaviour may exert an important influence on macro-economic developments, cannot be fully encompassed by conventional micro-economic analysis and dealt with through conventional micro-economic policies.
His positive contribution was to propose new planning institutions, namely a National Enterprise Board to intervene in industry to ensure that government policies were made effective and a requirement of major companies to make tripartite "Planning Agreements" with the Government and Trade Unions on such policies as location, manpower and social affairs. Holland's objective is to provide the economic policy content of a programme for a radical transformation of society in the direction of democratic socialism. The use of the word "democratic" in connection with planning agreements relates to widening the responsibility of companies to employees and society at large and "opening-up-the-books", and to the intention that private sector companies should continue to exist, conducting their day-to-day affairs largely without interference. We may consider, however, that other routes to industrial democracy - share ownership, profit sharing, etc - may offer more incentive towards both efficiency and workplace harmony.

1. History of Ideas and Practice

Holland's criticisms of previous policies require examination of the theory and practice of indicative planning and of the development of the "meso-economy". We approach indicative planning, first, through the history of planning and planning policies in Britain, chiefly since 1945, with reference to contemporaneous developments elsewhere in Western Europe. The seeds of industrial development in the fifties and sixties and government policy towards it were sown early in the century; Hannah (1976) helpfully
traces the several phases of concentration of industry and the associated changes in the mood of business and the public at large and in attitudes towards intervention—right through the first seven decades of the century.

The 1945-51 Labour Governments' use of its inheritance of planning machinery from the War Years and its innovations and experiences with them are surveyed in Leruez (1975). This is a detailed historical study with finely drawn accounts of the economic and political backgrounds—both theoretical and practical. He is supplemented by Armstrong, Glynn and Harrison (1984) writing from a more left-wing stance and with a broader historical and international sweep. In that post-war period the potential of Keynesian macro-economics and its relationship with industrial policy were explored by Wooton (1945), Durbin (1949) and Lewis (1949) but they were ahead of their time. The amount of planning diminished under Labour, and further under the Conservatives in the fifties. This trend was reversed with the resort to supposedly French-style indicative planning from 1961.

The Conservative and Labour essays in indicative planning—and the debates that preceded them—are covered by Leruez and also Budd (1978) and Gamble & Walkland (1984). Budd writes as an economist with a keen eye for political practicalities and cultural factors while Gamble & Walkland are political scientists (and further to the left than Budd) with a firm grasp of economics and provide a detailed summary of the formal and informal debates on planning in the two parties. It is particularly apparent to Budd
that not only was insufficient regard paid to cultural differences between France and Britain but also French planning institutions were inadequately understood. Cultural differences, especially the long tradition of *égalité*, were noted in the paper by Hesselman (1982) and earlier by Shonfield (1965) who also remarked on more hidden but deeply ingrained centralised planning structures in Western Germany; he nevertheless remained an advocate of indicative planning as an efficient way to manage "modern capitalism". The actual practice of planning in France in the forties and fifties is analysed in Bonnau (1975) and Delors (1978) and also by Massé (1962,1965) who may have been over-anxious to make the idea palatable to the British.

Various reasons for the failure of the two British plans of the sixties are propounded by Brittan (1967) and Shanks (1978) (as well as by Leruez, Budd and Holland). Chief attention is paid to economics - lack of realism in assumptions, concepts and objectives - including confusion of forecast and target and refusal of the authorities to consider devaluation. The Industrial Reorganisation Corporation had its genesis in Labour's indicative planning period; it was criticised from the right by Hindley (1970) and Grylls and Redwood (1980) and from the left by Holland (1975). Further light is shed on the sixties, and of course subsequently, by Middlemas (1983) - the official history of the National Economic Development Council's first 25 years.

In the seventies and eighties, our attention is concentrated on Labour's
thinking in opposition (rather than activity in office). The Holland-inspired "Programme 1973" for an NEB, extended state ownership and compulsory Company Planning Agreements was not carried very far in government from 1974 to 1979. From the latter year, however, there has been vigorous debate on an "Alternative Economic Strategy" in which planning agreements would play a role - a very important one in some, but not all versions. Aaronovitch (1981), though he differs from Holland in seeing the AES as only a step towards a fully socialist transformation of society, provides a useful summary of the "soft" left version in which compulsory CPAs are essential and central. While on the "hard" left Glynn & Harrison (1980) dismiss the AES as a diversion from the road to thoroughgoing socialism, on the centre/right CPAs are seen as useful but not crucial (Hattersley, 1985, and Prescott, 1985).

The concept has been developed further into what are in effect local planning agreements between Local authorities and businesses operating in their area by the Greater London Council (1984) and Sheffield City Council. Murray (1985) is a strong advocate of this development. Consideration of his work and criticism of it, as being pure micro policy without necessary macro back-up, by Aaronovitch (1986) and Glynn (1985b) is a useful microcosm of the whole debate.

Other political parties have contributed no positive ideas on planning agreements as such. Conservative macro-economic policy since 1979 has been based on a "Medium Term Financial Strategy" (HM Treasury, 1980, 1986)
which is a kind of indicative planning with control of inflation rather
than long-term growth the objective but with no associated industrial
policy. Neither the SDP (1984 a&b) or the Liberal Party (Cowie, 1984,
Cummins, 1986) produced much new thinking on economic policy but continued
to emphasise the importance of profit sharing and industrial democracy.

2. The Debate

Theories of indicative planning are surveyed in the first two chapters of
Estrin and Holmes (1983). These include the general equilibrium approach
of Meade (1970), elements of which have been reflected in French planning,
and the demand expectation approach of Harrod (1973) and Beckerman (1965)
which were nearer to any theoretical basis of the British plans in the
sixties. More to our purpose, however, is an alternative theory advanced
by Estrin and Holmes that indicative planning may lead to economies of
scale in the provision of economic information for strategic planning by
companies. Their views about the role of the state as opposed to
private sector specialists in the provision of such information and about
company planning generally being too limited for firm Company Planning
Agreements (CPAs) to be made are controversial and will be rejected in the
light of evidence from a survey of business of forecasts.

Holland makes a case for CPAs as a necessary ingredient of indicative plans
since the latter are obstructed and frustrated by the meso-economy,
especially multi-national businesses. It is clear, however, that while to Holland indicative planning requires CPAs, CPAs can be justified without there being any formal indicative plan, simply by reference to the alleged anti-social behaviour of giant firms if through them society's priorities can be enforced. Galbraith's writings (1976, 1974, 1984) have fostered a climate of opinion in which the management of big business is held to have acquired vast and unaccountable power which may be and frequently is exercised in directions contrary to social needs and even economic efficiency. Other bodies, eg the World Council of Churches (Arruda, 1982, Cateo, 1982; see also Wallace, 1983) have fostered hostility to multi-national companies. Such analysis may lack depth and rigor but its influence on policy cannot be ignored. A more sophisticated critique of modern economic society is that of Hirsch (1977); the inference of his argument that competition for scarce "positional goods" sets "social limits to growth" is various forms of state regulation and planning of economic affairs in which CPAs could well feature strongly. Environmentalist and conservationist fears of irreparable ecological damage from unfettered free market industrialism could be met by use of taxation to reflect marginal social costs in prices, but more frequently controls and planning are advocated (Daly, 1984, Harman, 1984). However, given the "small is beautiful" ethos of such schools of thought (Robertson, 1983), CPAs might seem to be undesirably propping up large scale organisation.

Holland advances evidence of the growth of concentration of manufacturing industry, citing Prais (1976), not Hannah (1976) whose inferences from the
same Census of Production data are similar. He then dangerously extrapolates the long-run trend to 1970 beyond 1970; we shall present evidence showing a change in trend since then and also of other sectors of the economy, largely ignored by Holland. His view of the development of the multinational enterprise is contrasted with the standard account of Dunning (1979). More recently, Holland (1987a & b) has published the first two volumes of a trilogy setting out a radical theoretical framework of economic theory with emphasis on how the emergence of big, MNC business necessitates restructuring of traditional micro and macro economic theory to take account of economics of scale and the irrelevance of (often incalculable) long run marginal costs to actual pricing decisions in private enterprise.

Holland and most advocates of the Alternative Economic Strategy on the Left were disappointed that the 1974-1979 Labour Government did not make CPAs compulsory, seeing this omission as a crucial weakness. Hare (1985), however, in his more recent study, while stressing the importance of CPAs in his what he calls a "gradualist" alternative to the "orthodox" AES, believes they should be voluntary, albeit with incentives, because of the political impracticability of compulsion. His case will be compared with the political realities arguments against CPAs of Walkland (in Gamble and Walkland, 1984).

The case against CPAs is varied - coming from all positions in the political spectrum and based on economic, political and social arguments,
separately and in combination. The classic liberal or free-market case is one illustration of the general case against planning, as in Hayek's (1944) demonstration of the "impossibility" of planning, in a free society, because of the limited amount of "hard" market information that can be known in a dynamic economy. Such information - on a few prices, etc - is perfectly adequate for the individual business but completely inadequate for national economic planning. Hayek's ideas were echoed in Jewkes (1948) and more directly in Littlechild (1986) who not only advances the monetarist charge that indicative planning and associated institutional innovations such as CPAs are at best irrelevant and probably inimical to acceleration of economic growth (by increasing inflation and introducing other uncertainties) but also deploys "public choice" theory in analysis of planning policies. The latter, by questioning the (implicit) assumption that governments and bureaucracies have no vested interest other than the public good, is potentially very powerful and will be taken account of.

Political realities are also discussed by Lindblom (1975), doubting whether detailed or obtrusive planning can be effective in a "preference guided society". The same author (1977) also discusses the political influence of business interests on the direction of economic and industrial policy. Walkland (in Gamble and Walkland, 1984) presents a direct and more detailed political analysis of Holland's ideas, their genesis, permeation of Labour Party policy and dilution with Labour in office. His criticism is sharp and open to some counter claims.
Turning to more narrowly economic analysis, Estrin and Holmes (1983), while sympathetic to indicative planning, are critical of CPAs because of the inadequacy or lack of firmness in company planning generally. Further to the left, Hare (1985) believes Holland exaggerates the influence of multinational companies and also doubts whether the balance of social costs and benefits of their operations is so negative as Holland suggests. In consequence he sees less importance in CPAs and thinks they should not be compulsory. Fine (1982) has no doubts about the baleful influence of multinationals but does not believe they can be adequately controlled by CPAs whether voluntary or compulsory; accordingly nationalisation is essential for socialist planning. Fine does, however, see CPAs as better than nothing as an intermediate step in a socialist direction - in contrast to what he rightly considers to be the unrealistic haste of Glynn and Harrison (1980).

Various protagonists see CPAs as useful or necessary tools with which to control the economy as it is and to shape it in the direction of an allegedly better society. It is also necessary to consider what changes in the economy and society are likely to take place anyway as a result of technological and social trends already underway - and whether CPAs will have any relevance in the coming order of things. Environmentalists and conservationists while embracing new technology - if "resource efficient" - believe "small is beautiful" (Schumacher, 1973, Robertson, 1983). Insofar as their vision of the future is realistic and desirable, large scale planning, including CPAs, has no future.
The last two writers do widen the issue and we argue that the CPA debate has been conducted on too narrow and short-term economic and political bases. A much wider and longer historical framework for analysis must be constructed so that the motivations of governments, companies and trades unions may be examined in the light of their social, cultural and historical conditioning.

Three writers from very different standpoints cast much light on these issues: Olson (1982), Wiener (1981) and Hirsch (1977). Olson concentrates on institutional factors and attempts to show that differences between nations in economic growth are related to differences in history. In nations, or regions of large nations, with a century or more of settled history, sectional interest groups become powerful protectionist pressure groups with the effect of restraining economic growth. In nations without settled history, interest groups are less likely to develop such power, with growth-enhancing consequences. Wiener is more concerned with culture and the effect on British industry of the sense of guilt and nostalgia for a stable pre-industrial age the twentieth century inherited from the second half of the nineteenth. In effect, however, he puts forward a plausible explanation of how Olson's protectionist pressure groups gained power. Hirsch, though writing before them, took the end product of the developments described by the other two and drew inferences for the present and future in a more specifically economic focus. As he saw it, dissatisfaction with the performance of the economy leads to a general
preoccupation with redistribution and ultimately, despite the prevalent individualism, to what he calls "a reluctant collectivism". He drew attention, however, to an inconsistency between the Keynesian assumptions of an amoral micro-economy and central authorities managing aggregate demand seeking nothing but the public good. In fact, Keynesian, and indeed all discretionary macro-economic policy, is dependent on a fast wasting stock of "pre-bourgeois morality". We shall demonstrate the links between views from the three standpoints. The ensuing argument is that a system of planning which goes beyond the merely indicative to include Company Planning Agreements may well founder on the rocks of producer protectionism for lack of an industrial or post-industrial morality and culture.

3. The Assessment

Thus we come to the assessment of Company Planning Agreements which comprises two parts, the concept itself and its practicability. As regards the latter, reference is made to the literature and personal findings on the Agreements signed by the 1974-79 Labour Government with the National Coal Board and Chrysler, other similar relationships between government and nationalised industries and experience elsewhere in Western Europe. As regards the concept, an attempt is made to develop criteria of judgement based on Rawls' (1972) Theory of Justice taking account of criticism of Rawls alleged over-individualism by, among others, Preston (1979, 1983). This provides a "priority for the poor" moral basis from which
objectives for an economic planning system in general and a Company Planning system in particular are derived and assessed.

This survey shows that the literature on the macroeconomics of indicative planning is extensive, as is criticism of "Big Business" in the market economy. There is a gulf, largely unconfused by evidence, between those free market advocates who mistrust all government economic planning and those planners who mistrust all big business. There is, however, little hard analysis on how the competitive model is working in the economy overall. There is a substantial literature on the social and cultural impact on economic development and the requirement of a moral basis for the market economy, but relatively little on how these insights may be used to enhance economic welfare. Public choice analysis has laid bare the limitations of government and the power of institutions both formal and informal in the political and economic process; it has been deployed chiefly by free market advocates in the case against planning. The field is open for its use by those less ideologically committed to the free market and more sympathetic to government intervention and planning but aware of the existence of cultural limitations and of the need for political realism.
Company Planning Agreements are a form of government intervention in the economy designed to bridge a gap that it is supposed to exist between macro economic planning by government and micro economic planning by companies. It is not axiomatic that such intervention is either necessary or desirable. While CPAs can exist as a part of a wide variety of economic planning systems and can serve a wide variety of economic policy objectives, they are always a part of a system, never "stand alone", and essentially a tool of policy, not the policy itself. In particular, they always presuppose a mixed economy but basically free market system in which there is some form of government intervention through planning.

Thus study of CPAs is inevitably set in the context of the debate between those who advocate more planning and those who advocate less intervention and greater reliance on competition. On the one side it is argued that macro economic, "indicative", planning has failed because of the lack of more extensive intervention for which CPAs are ideal, on the other, that in a free society government involvement in economic planning is at best an irrelevance and at worst an impediment to the efficient working of the market economy. This chapter examines the historical antecedents and the context in which the CPA concept was born in the seventies, briefly considers international experience of CPAs in practice and traces development of the concept in the UK in the eighties.
I Planning before the Sixties

It was during the First World War that government intervention in, and planning of industry first became significant. It was occasioned in particular by problems in the supply of munitions and involved government imposed standards, government encouragement of technological developments and rationalisation and government promotion of mergers. Because of the War, new industries had to be instituted to make products previously imported, such as dyestuffs and magnetos, and on the demand side government information on munitions requirements rendered normal commercial intelligence superfluous. Such intervention was successful in achieving the objective of substantially increased production of munitions. Furthermore it was to have greater long-term significance in effecting change in the structure and the climate of opinion in industry than did government grouping and control of the railway companies (to facilitate movements of troops as well as materials).

The powers that the Government took in wartime were dismantled sooner after the War than more extensive powers were to be after the Second World War. Nevertheless experience of them seems to have been a contributory factor in the development of rationalisation as, in the conventional wisdom, the appropriate response to loss of international competitiveness by British industry. Hannah (1976) cites various industrialists advocating the merits of co-operation and the economies of large scale production in contrast to the inefficiency and "waste" of competition. "Scientific management" was
seen as an alternative ideology to socialism to replace old-fashioned free market competition. Hannah observes (page 38) that "Economic systems are organised ... not only in response to an objective assessment of the relative costs of alternative methods of satisfying given wants, but also on ideal grounds - that is, according to whether a particular economic system will produce as well as satisfy wants which are considered socially desirable in themselves. These factors are potentially as important as technical factors in determining the direction of innovation in economic organisation."

Although there were those, especially spokesmen of small businesses, who continued to espouse competition and were suspicious of rationalisation, Harold Macmillan expressed the prevalent post-war mood when he told a management research group: "There is abundant evidence to prove that some form of conscious social direction will have to supplement the old system under which the direction of our economy was entrusted to the method of trial and error in response to the price indicator," (quoted by Hannah (1976, page 34). Prevalent moods or the ideas of Hannah's "ideal grounds" across all ranks of economic agents or the social consensus (if any exists) have, as we shall argue in Chapter VI, an important bearing on the viability of any system of national economic planning.

Mergers were the chief manifestation of rationalisation in the twenties and as a result concentration of industry increased. By 1935 the largest 100 companies accounted for 24% of the net output of manufacturing industry,
compared with only 15% in 1909 (Prais, 1976). Governments took a non-interventionist stance. In the next decade, however, after the Great Depression, state intervention increased in two respects. First, tariff protection and other legislative aid was given to hard-pressed industries and in return they were obliged to accept intervention in their internal affairs. For example, in steel the work of the Import Duties Advisory Committee led to Government influence in investment programmes and pricing policy coordinated by the British Iron and Steel Federation, while the Cotton Re-organisation Act of 1936 brought about a reduction in competition and capacity in textiles. Second, in face of disparate and seemingly intractable levels of unemployment in certain regions of the country, special regional measures were introduced under the heading of "economic planning".

The more extensive interventionism from 1939 to 1945 included full-scale national economic planning for the first time, with development of national income accounting and the use of Keynesian analysis. Not only were labour and physical resources directed towards munitions but also sophisticated systems of rationing food, other consumer goods and building materials were introduced and employment, price and wage levels were managed.

Planning became acceptable in wartime. Sacrifice of the individual interest for the corporate interest, i.e. winning the war, was accepted by almost everyone, regardless of political viewpoint. This did not mean, of course, that individual self-interest was completely submerged and always
voluntarily surrendered, but that it was generally accepted there had to be means of inducing or compelling individuals or private corporate bodies to conform to the requirements of the supposed public, state interest. Socialism became acceptable for the duration, or at least some socialist methods of economic planning were generally regarded as necessary. Peacetime would be very different; economic liberals and socialists would again differ about the merits of intervention and economic planning. But the practical experience obtained through the war economy was to have longer-term influence. Not only did industry gain experience of intervention and planning in cooperation with government, but also government learned lessons - at the political level in Cabinet and in Cabinet Committees and at the administrative level as Departments became "sponsors" of industries. Furthermore, the "Beveridge Reports" (Beveridge, 1942, 1944) not only led to the establishment of a more comprehensive national insurance system but also government acceptance of responsibility for promoting and preserving "full employment" which in practice Beveridge thought meant aiming for an average unemployment rate of 5%.

The Labour Government from 1945 to 1951 removed most wartime rationing, but only gradually. For example, many steel products were still subject to Ministry of Supply allocation until well into the fifties. Furthermore, nationalization increased government powers of intervention. Nevertheless, economic planning under Labour became increasingly macro and "indicative". Rationing and building controls were whittled away; Mr Harold Wilson, as President of the Board of Trade did have a "bonfire" of controls. Potential
for intervention through the newly nationalised industries was not
developed in any systematic way. Indeed in principle there was to be an
"arms length" relationship between government and each industry. Social
aims were to be achieved through the members of the nationalised
corporation boards being, in Mr Herbert Morris on's words, "high custodians
of the public interest". The Labour Government did in fact intervene or
interfere with nationalised industries, but in the interests of macro
economic policy, not industrial policy.

The deepening interest in macro-economics reflected the absorption and
development of Keynesian ideas by socialist thinkers. Evan Durbin (1949)
advocated a Central Economic Authority to give guidance on output, prices
and investment that would be flexible in response to changing tastes. Such
guidance would enable the national as well as shareholder interest to
influence business behaviour. Barbara Wooton (1945) thought the freedom of
action of the individual firm should be preserved, with some limitation,
but that a central plan for incomes would be necessary. Arthur Lewis (1949)
argued for (macro) economic planning on relative efficiency not ideological
grounds; planning techniques should be judged by results.

From 1945 to 1947 there were acute food and fuel supply problems for the
Government. At the same time, balance of payments crises were either
present or threatened. Thus rationing was considered essential, even for
some products not rationed during the war; allocation of industrial
materials was controlled in order to give priority to production for
export; and attempts were made to contain inflation by persuading trade
unions to moderate wage claims in the national interest. While the specific
food and fuel problems eased, the macro-economic problems of inflation and
the balance of payments remained and thus assumed prime importance for
government policy. An “Economic Survey”, annually from 1947 to 1951, was
the principal vehicle for expression of the Government’s macro-economic
plans or aspirations. It is interesting to note, however, that, following
the 1949 devaluation and the outbreak of the Korean War, the last three of
these what might be called indicative plans in embryo tended to have less
purposeful planning content and to become more of a commentary on the past
year with merely some outline forecasts for the coming year, emphasizing the
role of fiscal policy in demand management.

Marshall Aid from the USA for the economic reconstruction of Western Europe
and the formation of the Organisation for European Economic Cooperation
(OEEC) prompted the establishment, in 1947, of a Central Planning Staff to
produce a “Long Term Programme” which was published as a White Paper (Cmnd
7572) in 1948. It was a statement of economic strategy not a “rigid set
of instructions for several years ahead”. Thus began a long tradition of
medium-term economic forecasting in government, subsequently deployed in
planning for the steel industry and in the experimental national indicative
planning in the sixties. At the time it provided a framework for
controlling investment (eg through building licences), the exercise of the
residual powers of labour direction and a basis for overall demand
management in the annual Budget.
In effect, though not in rhetoric, the Conservatives in office from 1951 simply accelerated this retreat from planning and controls rather than changing direction. Rationing and most of the remaining supply controls were speedily abolished and the macro-economic tools were deployed differently, with much greater use of monetary restraints against inflation. But the Conservatives accepted that the Government had a responsibility for maintaining the overall balance of the economy, i.e. "full" employment, price stability, balance of payments equilibrium and economic growth, to be exercised through use of Keynesian techniques of aggregate demand management. RA Butler in his famous assertion that the standard of living could be doubled in a generation (literally, so I understand from private conversation, a back-of-envelope calculation), while expressing an interest in growth, was indicating the fruits to be earned through private enterprise. As the fifties wore on, however, inflation and balance of payments problems persisted and supplementary measures were tried. These included Cohen "Council on Productivity, Prices and Incomes" comprising "three wise men" - a judge, an economist and an accountant - to make public pronouncements on economic developments and to provide indicators for economic agents in their pricing and wage-bargaining.

On the industrial policy front, there was during the forties and fifties in effect a bi-partisan approach to competition policy. The Monopolies Commission was established by Labour (in 1948), the Restrictive Practices
Court by the Conservatives (in 1956). It was a reversal of the Pre-War policies of Protection and benign disregard of monopoly and mergers. It was basically a non-planning stance, but was in conformity with the international mood for the development of a much more liberal economic order. Even in the nationalised industries there was little government intervention, either Labour or Conservative. Policy was guided by Herbert Morrison’s concept of an arm’s length relationship between government and the nationalised industry boards who were chosen to be "high custodians of the public interest." The Arms Length principle was not stuck to very well; in the interests of macro-economic policy, investment and prices were curbed. Apart from that, the chief example of government interference with nationalised industries was in the case of coal when fuel shortages threatened to cripple industry and called for special steps to increase manpower. Steel, outside the nationalised sector (the 1951 nationalisation had little real effect) was also subject to controls for the same reason — shortages and the need to ensure adequate supplies for investment and exporting industries. As we shall see later, techniques of planning and control in steel were used in the planning experiments of the sixties.

Set against the previous record, UK economic performance up to 1960, as measured by economic growth, was good. It was less so when set against that of neighbouring nations. For the early Post-War years it could be argued that faster growth in the other economies reflected recovery from much greater wartime devastation than Britain had undergone. But the force of this argument diminished as the fifties wore on.
### Growth of Gross Domestic Product

<table>
<thead>
<tr>
<th>Country</th>
<th>1950-55</th>
<th>1955-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>2.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>...</td>
<td>2.0</td>
</tr>
<tr>
<td>France</td>
<td>3.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Italy</td>
<td>...</td>
<td>5.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>West Germany</td>
<td>8.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Japan</td>
<td>...</td>
<td>9.0</td>
</tr>
<tr>
<td>USA</td>
<td>2.5</td>
<td>0.4</td>
</tr>
</tbody>
</table>

Source: UN Statistical Yearbook, 1965
The Conservative Party, under the new leadership of Harold Macmillan, surmounted the aftermath of the Suez debacle and won an increased majority at the 1959 General Election. That year's economic boom, however, led to overheating in the following year, necessitating restrictive measures, including a pay freeze in 1961. The unpopularity of the Government's economic policy brought on by this return to "stop-go" was increased by the failure of negotiations to join the European Economic Community in 1962. Outside the immediate political arena — in the Federation of British Industry and in research institutes such as Political and Economic Planning (PEP), the National Institute for Economic and Social Research (NIESR) and no doubt in the Civil Service — there was intensified discussion of what could be done to improve British economic performance, especially in relation to West Germany and France. The success of the German economy was popularly ascribed to Professor Erhardt's "social market" philosophy. Since this apparently meant government intervention in the economy was limited to the macro level and since the British Government had been moving in this direction, it seemed more appropriate to consider adoption of the alternative French style of economic management.

Budd (1978) suggests there were also strong cultural reasons for seeking a French rather than a German solution to Britain's economic problems: the francophile nature of the intelligensia generally and top Civil Servants in
particular to whom "culture" virtually meant "French culture". In economics too, there were close links between PEP and the NIESR in London and the Organisation for European Economic Cooperation and Development (OEEC, later the Organisation for Economic Cooperation and Development) in Paris. In any event, there were extensive discussions among Civil Servants, Industrialists and Economists and with their French counterparts in 1960 and 1961. Impressions were formed about French indicative planning and how it might be adopted/adapted for British use. It will be argued that much of the subsequent failure of British national economic planning can be ascribed to failures to understand the differences between the French and British social and economic systems and the nature of French indicative planning.

What was French planning and what had it achieved? Industrial policy and macro-economic policy were two distinct parts that, especially in the early years, were not always integrated. British would-be emulators fastened on the latter, but it was the former that had most impact in the forties and early fifties. At the end of the War, French industry was conditioned not only by the Occupation and war-time devastation but also by the longer-term legacy of pre-war depression. In general, industrialists were pessimistic about market growth. Thus any improvement in growth and in business attitudes would be counted a success. The First Plan, from 1945 to 1949, concentrated on six key industries, including coal, electricity, railways and steel, the first three of which were nationalised. This was the "Monnet Plan" for reconstruction, not actually published until 1947, and
was based on Jean Monnet's concept of "concertation" - a process of consensus building in industrial committees of industrialists and civil servants. (Politicians and Trade Unionists had little role in the planning exercise itself.) Here it should be noted that top industrialists and civil servants in France commonly have the same educational background and often exchange positions as part of their career development. The object of the exercise was to boost confidence and substantially expand investment in these six industries. The method was a combination of carrot and stick.

The carrot was the provision of finance on favourable terms from newly nationalised financial institutions - at a time when financial capital was scarce and when state authorisation was required for a share issue. An illustration of the stick, less frequently used, was direct intervention to reform the steel cartel and its trade association when, after the first wave of post-war investment, the steel masters resumed "the traditional Malthusian pessimism (ie fear of over-production) of French entrepreneurs" and were reluctant to raise capacity well above pre-war levels. Delors (1978, pages 14,15). It is apparent that the first plan did not start with a macro framework but instead concentrated on what seemed obvious sectors in need of modernisation and expansion and crucial to the development of the economy as a whole. The basic institutions were "Modernisation Commissions" for each industry using unsophisticated "hit-and-miss targets" (Armstrong et al 1984). Only with later plans did the forecasting become more sophisticated and integrated and the
Commissariat General du Plan assume a more important role. Even then, despite greater emphasis on consistency in the second, third and fourth plans, the criteria for intervention in an industry to assist a particular scheme would be the intrinsic merits of the scheme rather than its place in the overall plan (Bonnaud, 1975). The planning system evolved and the comprehensive rationale described by Pierre Massé (1962, 1965) and absorbed by British observers was ex post, not ex ante.

Massé, the Commissioner-General of the Plan, made plain that the French Plan, while not imperative, was not purely indicative; there were ways and means of ensuring desired outcomes. The Plan resulted from a process in which representative elements participated and it was its coherence that achieved that all important increase in private sector confidence. Nevertheless, public investment was the driving force and extensive use was made of stimulants (carrots) such as credit facilities, tax exemptions and subsidies in depressed regions. He argued that a national plan must have an "irreducible minimum" content: it must be directed towards regional and social policy aims and comprise plans for expansion of the economy, distribution of resources between consumption and investment, and the structure of final consumption. By the beginning of the sixties, French plans had become more macro and systematic, but perhaps not so much so as British observers thought. And little attention was paid to the very different social, political and cultural backgrounds of the two nations.
Later commentators such as Shonfield (1965), Delors (1978) and Hesselman (1982) emphasise the centuries-long French tradition of etatism. Shonfield traces it continuously from the sixteenth century as a belief in the necessity of central direction by an elite. Delors approvingly cites Shonfield but observes that the Plan should not be regarded as the expression of the economic policy of the State since it existed alongside, parallel to the State; the Government was not explicitly committed to Plans before the sixties. Hesselman produces French etatism as one reason why it has not proved possible to translate planning practices from one country to another. At the opinion-forming FBI conference in 1961, however, Masse played down cultural and administrative differences (while mentioning the value of financial incentives. Rather he emphasised the non-ideological basis of French planning and its compatibility with private enterprise. Furthermore, he gave the impression that, given a wide consensus on planning, the plan itself would be largely self-implementing. Walkland suggests this helps explain lack of emphasis on implementation in the British plans of the sixties. (Gamble and Walkland, 1984, page 115.)

Gamble and Walkland also trace the rapid rise (and fall) of Conservative support for national (indicative) planning through speeches at successive annual Party Conferences, and corresponding reaction at Labour Party Conferences. The Conservative conversion began at the 1961 Conference with the Leader's speech of Harold Macmillan (an interventionist since the thirties) urging more economic intervention and creation of a tripartate consultative and planning body. With the NEDC in operation, growing
enthusiasm for planning was apparent in the 1962 and 1963 Conferences. Then the Conservative 1964 General Election Manifesto declared "the NEDC gives reality to the democratic concept of planning by partnership. In contemporary politics the argument is not for or against planning. All human activity involves planning. The question is: how is the planning to be done? By consent of by compulsion?" (Quoted, op cit, page 116.) But Conservative enthusiasm faded as quickly as it had risen - as soon as a Labour Government began to practice its version of planning. Edward Heath's Leader's speech to the 1965 Conference made no reference to planning and the word did not appear in the 1966 Manifesto. This does not mean that many leading individuals in the party changed their views, but rather that different strata held sway. As Budd (1978) notes, the Conservative Party has long had a Tory interventionist wing and a neo-liberal free market wing. From 1961 to 1964 the former held sway; from then on, the latter.

The Labour reaction was to argue that the Conservatives had not stolen Labour's clothes but, in Harold Wilson's words in 1961, only "the label sewn into the back of our trousers" (quoted in Gamble and Walkland, 1984, page 116). At the 1962 to 1965 Conferences, euphoria increased. One of the few cautionary notes was sounded by Anthony Crosland in 1963, urging the need for a broad consensus and an attack on conservative attitudes in industry, trades unions and throughout society, and the long-term nature of the task.
As we have noted, the French planning system developed from emphasis on micro plans towards macro planning; later, more formal "planning contracts" between Government and industry became important. One of the theories of indicative planning stresses the exchange of detailed information to supplement that available in the market or to compensate for market failure in supplying such information so that businesses, and the Government, could plan more efficiently - and so make better use of the resources available and enhance the rate of economic growth. Obeisance was paid to this theory" in the "Industrial Enquiry" of the 1961-66 Plan, but the main emphasis was on the "target" rate of economic growth and how it might be a self-fulfilling forecast.

The Conservative Government, and especially Selwyn Llloyd, the Chancellor of the Exchequer, based almost everything on the "virtuous cycle" theory of planning: that publication of a plan for the economy as a whole would remove much uncertainty and prompt the substitution of optimism for caution. Indeed this seems to have been the prevailing stance at the time, especially in the independent organisations PEP and the NIESR, but also in industry. "The mere publication of an estimate of the possible achievement of the economy for a few years ahead, if such an estimate has been carefully drawn up with the cooperation of the people who will be responsible for its realization, may in itself be a potent force making for success." (PEP 1960). Planning was not to allocate resources as in wartime but "to establish the kind of economic climate in which a higher growth rate will occur by normal processes of free enterprise and competition"
(Sir Hugh Beaver of the FBI, quoted in Middlemas, 1983). Selwyn Lloyd recognised the need to build a consensus for such an economic climate and drew up the National Economic Development Council (NEDC) for this purpose.

The NEDC was to be tripartate - government, industry and trade union members, with a few independents. The Government would be represented by ministers. Given the genesis of the idea, there would be no difficulty in finding industrial members; in fact individual industrialists were invited by the Chancellor to join the Council rather than being nominated by the FBI and other organisations. The Trade Union Congress was invited to send representatives and there was reluctance to accept such an invitation from a Conservative Government. The Government were fortunate in that the General Secretary of the TUC was George Woodcock who saw TUC membership could help further his own plans to modernise the TUC. In the event it was only after assurance had been given that a policy for planning incomes growth (or limitation) would not be on the agenda did the TUC accept. (It must be remembered that as late as July 1961 Selwyn Lloyd had resorted to a pay freeze, concentrated on the public sector.) The NEDC was established in 1962, with a staff drawn from Civil Service, academic and industrial sources to form the National Economic Office (NEDO) which was independent of the Civil Service.

Since the object of the exercise was to persuade economic agents that a faster rate of growth was attainable if only they would plan on the assumption that it would be attained, attention was inevitably focussed on
choosing a growth rate and convincing the public of its feasibility. It had to be significantly above the prevalent 3% a year growth of GDP at constant prices. It is thought that the Chancellor favoured 5% but was persuaded by NEDO staff that 4% would be sufficiently ambitious. Before the planning process actually got underway, Lloyd (together with several other ministers) was dismissed and was replaced as Chancellor by Reginald Maudling.

The procedure was for industries to be asked what would be the implications of a 4% rate of growth and for the NEDO to use the replies and its own macro and industrial analyses to assess the feasibility of the growth rate and what obstacles there might be in achieving it. The Industrial Enquiry covered 17 industries/services accounting for some 40% of GDP. It is possible that the published results may have given some guidance to firms in or supplying or customers of these industries. But, since the enquiry was not comprehensive, there was no way of telling whether the industry plans were consistent with the overall growth rate.

My own experience in the steel industry at the time suggests that the quality of the enquiry returns was very uneven. The steel industry, highly cartelised and subject to government controls in pricing and investment was well versed in techniques of constructing medium term projections using forecasts of output of consuming industries to forecast demand for steel products. Other, more competitive industries with small-staffed trade associations were less well-equipped to participate in such an exercise. It
is not without significance that the first Director-General of the NEDO was Sir Robert Shone who had been until then Director of the Iron and Steel Board, the government watchdog over the industry.

The 4% planning hypothesis almost imperceptibly became a target even before the plan was published (NEDC 1963) in the depths of a severe winter that accentuated the effects on output and employment of the recession that had begun in the previous year. In his first Budget, Maudling cut taxes substantially as a government contribution towards the achievement of the Plan and promised that Public Expenditure, including investment by the Nationalised Industries would be based on the assumption of 4% growth. This expansionary fiscal policy, coupled with monetary expansion (including relaxation and then abolition of controls on hire-purchase was accompanied by a sharply increased growth of consumer and capital spending, output and imports. Balance of payments difficulties led to a neutral rather than an expansionary Budget in 1964 and more restrictive monetary policy. In retrospect, it looks as though the expansionary policies of 1963 were shaped towards a late 1963 or early 1964 General Election. In fact Harold Macmillan resigned as Prime Minister on the eve of the Conservative Party Conference in 1963 and the new PM, Sir Alec Douglas Home, being relatively unknown to the electorate, needed time to play himself in and the General Election, which the Conservatives narrowly lost, was not held until the latest possible time, October 1964.

This first attempt at national planning was purely indicative. The
Government took no new powers to implement it. The measures they took in support of it were conventional fiscal and monetary ones. There was no hint of any contractual relationships or ties of obligation, however loose, between Government and industries or large firms. Indeed the plan was produced by and the responsibility of the NEDC, nominally independent of government. If there was any sense of contract at all, it was an implied one between the three sides of the NEDC – government, industry and trade union – to seek, build up and sustain a consensus that almost by itself would achieve the goal of faster economic growth. Middlemas (1983), in the official history of the first 21 years of NEDC, concludes appositely (page 19): “Far from inheriting a clean slate, its very constitution incorporated the dilemma it was supposed to solve. Neither powerful nor truly independent of government, dominated by the ideologies of its long-organised partners, and pushed largely for political reasons, into an unreasonably optimistic set of targets, NEDC began as a prime example of the belief that structures led automatically to progress. Its first three years taught that even the most limited form of consensus was not easy to maintain and that action did not necessarily follow from it.”

Even so, more might have been achieved but for two factors. The first was the change of government in 1964 which, given the political climate, meant scrapping of previous plans on principle. The second was the different way from the French in which difficulties were met. The French did not let the exchange value of the franc stand in the way of the Plan and, as pointed out by Leruez (1975), when short-term developments called for some
restriction of aggregate demand, cut back on public sector investment in schools, hospitals, recreational facilities etc. By contrast, the British (both Conservative and, later, Labour) response to overheating was general deflation, the effect of which was to cut private sector investment, depress confidence and in effect kill the Plan.

Labour's National Plan (Department of Economic Affairs, 1965) was consciously more than purely indicative. It was no longer independent of government since the Department of Economic Affairs (DEA) was set up, headed by the Deputy Leader of the Party, George Brown, and staffed by existing civil servants, NEDO's economic staff and newcomers from industry and the universities. The NEDC continued, as a forum for debate on the Plan and planning matters, and the NEDO continued its industrial studies, carried out another, more extensive, industrial enquiry and serviced the extended range of Economic Development Committees (EDCs). These committees had been started under the previous administration and contained representatives of management and trade unions from the industry, and independent members, one of whom was usually chairman. The Industrial Enquiry this time covered the whole economy, not just 40%. Yet the value of the results, either to the individual firm or in checking consistency and discovering bottlenecks, may be doubted. WF Gosling, who served in the DEA, has commented on the difficulty of incorporating this information in the input-output model, developed by the Department of Applied Economics at Cambridge and used for the National Plan (quoted by Budd, 1978, page 233).
The National Plan target was 25% growth in GDP between 1964 and 1970, an annual average of 3.8%. The target, together with the other expenditure and output macro variables was the indicative part. An imperative part was implied by the various "check-lists" for action published with the Plan. For example, the balance of payments check list pointed to the need for government action to improve port facilities so as to speed up despatch of exports. In practice, however, the National Plan enlisted even less government action in its support than its predecessor. From the moment it took office, the Labour Government was engaged in a battle to preserve the $2.80 parity for the pound. This meant not only was there little action on the check lists but also that there was no such expansive fiscal and monetary policies as from the Conservatives in 1963 and finally (for the Plan) the adoption of deflation and a pay freeze in July 1966. As far as the exchange rate was concerned, all this was in vain for the pound was devalued, to $2.40, in the November of the following year.

Various authors, including Brittan (1967), Leruez (1975), Holland (1975), Shanks (1977) and Budd (1978) have suggested reasons for the National Plan's failure, in addition to the general critique of any state planning effort in a democracy and allegations of failure to appreciate the true nature of French planning and the social, cultural, etc differences between France and Britain. Among them are the lack of clear and positive strategies for achieving the growth objective, the conflict between the Plan and misplaced preoccupation with preserving the exchange rate, the unequal division of power and influence between the Treasury and
the DEA and the lack of government powers to exert influence on the largest businesses to adjust their corporate plans and economic behaviour generally to conform with the Plan.

There was a brief revival of national economic planning activity during 1968-1970, the final year seeing the demise of the Department of Economic Affairs. Tripartite discussions at NEDC led to the publication of a White Paper "The Task Ahead" (DEA, 1969) and, reflecting industrial responses to it, "Economic Prospects to 1972" (Treasury, 1970). Meadows (in Blackaby, 1978) is surely right in saying this "had very little impact" but Shanks (1978) who was involved in the discussions, first within the DEA and then as a corporate planner in industry, makes some observations which are relevant to consideration of subsequent developments. Although national planning was under a cloud, corporate planning had come very much into vogue. Shanks does not say so, but it could be that corporate planning had been stimulated by revelation of deficiencies in management techniques through the National Plan, deficiencies which had contributed to the Plan's failure. The object of national planning need not be simply to raise the rate of economic growth, but, in conjunction with corporate planning, to improve allocative efficiency though the discovery and removal of obstacles to efficiency and the reduction of uncertainty. Shanks' own experience, however, as a planner in the motor industry showed the limitations of such concepts and problems that would arise in the whole idea of Planning Agreements. "I found that it was not possible to reconcile my company's corporate plan with the NEDO exercise (in "The Task Ahead") since the
assumptions on market growth which we were asked to work on by the government were not those which I felt I could recommend as a realistic basis for forward planning to my company" (Op cit, page 56).

The National Plan died, but two institutional innovations, one, the Industrial Reorganisation Corporation (IRC), arising at least in part out of planning considerations, the other, the National Board for Prices and Incomes (PIB) not related to the Plan, had important implications for the development of planning in general and planning agreements with individual companies. Virtuous circle indicative plans had been broken by balance of payments constraints. This was thought to be a reflection of relative industrial inefficiency. The IRC, set up by the Government in 1966, sought to improve the efficiency of industries operating in growing but competitive world markets by sponsoring reorganisation, and in particular mergers, so as to encourage enterprise in the exploitation of economies of scale. This, of course, potentially conflicted with monopoly and merger policy. Although both policies were pragmatic rather than based on inviolable principle so that conflict was not inevitable, since they were promoted by different government departments it became highly probable. Industries in which the IRC was active included electrical and electronic engineering, mechanical engineering and motor vehicles. Apart from moral support for reorganisations, the IRC made public funds available, usually in the form of loans. Its aims were economic and commercial - enhancement of profits, exports, productivity - not social or political. It was criticised on free market anti-intervention grounds by Hindley (1970) and
Grylls and Redwood (1980). It was condemned by Holland (1975) for its economic/commercial preoccupations that led to "actually promoting redundancies ... for instance, in the case of the GEC-AEI merger" instead of offsetting them (Holland, 1975, page 300).

The PIB, like the IRC abolished by the Conservatives after 1970, was set up in 1965 to monitor and provide information for the Government's counter-inflation policy. In so doing it unearthed much information about big businesses planning as well as pricing methods and fulfilled an educational role - for both government and business. Its chairman was Aubrey Jones, a former Conservative Minister and, probably more significantly, a former Economic Director of the British Iron and Steel Federation, and its deputy-chairman was Ralph Turvey, formerly Reader in Economics at the London School of Economics and latterly chief economist at the Electricity Council where he became an enthusiast for marginal cost pricing (as advocated by the Treasury in a White Paper in 1968). Turvey encouraged nationalised industries referred to the PIB to adopt long-run marginal cost bases in their planning techniques and procedures, involving the construction of sophisticated linear programming models. Several studies on such lines were commenced, eg at the Post Office for both Posts and Telecommunications, but, with the demise of the PIB, not brought to a conclusion involving implementation. In the financial sector, the PIB report on bank charges, together with the Monopolies Commission report on bank mergers, paved the way towards the ending of the bank cartel and the introduction of "Competition and Credit Control". The Labour Government
came to see the PIB as an agent for industrial reform and intended to merge it with the Monopolies Commission to form a new "Commission for Industry and Manpower" which would have complemented the IRC.
J Labour in the Seventies

From the planning angle, interest during the 1970-1974 period of Conservative government was concentrated on the thinking of the Opposition. In its first two years, the government's policies were characterised by the belief that neither planning nor incomes policies nor demand management based on the Phillips Curve had worked. Thus the PIB, as well as the IRC, was abolished and a dash for growth was embarked upon with income tax cuts and increased public expenditure in the hope that faster real growth might facilitate the course towards lower inflation. The growth of money supply and subsequently inflation accelerated. The U Turn in 1972 was not a return to planning but a resort to curbs on incomes once more.

In Opposition, Labour was engaged upon a fundamental rethink. After the 1951 defeat there had been a debate between revisionists, led by Crosland (1956) and fundamentalists led by Bevan (1952). Although Clause 4 of the Labour Party's constitution was retained with its reference to the need for common ownership of the means of production, distribution and exchange, the revisionists gained the ascendancy. This paved the way for indicative planning to be the keystone of economic policy in 1964, with no major acts of nationalisation, other than steel, in the 1964-1970 period. After the (unexpected) defeat in 1970, there was another rethink, this time with more looking back - at the failure of indicative planning.
The first fruit of this rethinking was an "Opposition Green Paper" prepared by a group including Stuart Holland, Thomas Balogh, Richard Pryke and Derek Robinson and published in 1973. Its theme was that the next Labour Government in its planning for investment and growth promotion should use a "National Enterprise Board" and state ownership of companies to ensure that the government's planning strategies were matched by operational instruments. The proposals in the Green Paper were incorporated later in the same year in "Labour's Programme 1973" on which its General Election Manifesto was based. It emphasised that the primary objective of planning was not faster economic growth, but to increase employment, especially in regions of high unemployment, by influencing the medium and long-term strategies of the largest firms in manufacture and services. This influence, on strategies for investment, location, exports and import-substitution etc, was to be achieved through new public enterprise, a planning agreement system and a new Industry Act.

Through the National Enterprise Board, selected companies in key sectors of manufacturing industry would be taken into public ownership so that there would be a "pull" effect on companies, including multi-nationals, remaining in private hands. The rationale of planning agreements has already been outlined in Chapter I. Programme 1973 envisaged that they would be obligatory for firms above a size to be specified but certainly including the 100 largest in manufacturing and all major state enterprises. The firms would supply the information on past performance and future plans needed by government planning; firms would give their written agreement to help the
government meet employment, etc objectives; and the system would provide channels for selective government assistance. The Industry Act would give the government powers to bring uncooperative firms into line. Throughout it was stressed that the government would seek to influence the strategy not the shorter-term tactics by which firms were to achieve their, and the government's, aims.

In office, from 1974, the Labour Government produced a White Paper "The Regeneration of British Industry" (Department of Industry 1975) substantially on the same lines, including provision for the firm's trade unions to be party to any planning agreement. This led to widespread debate inside and outside Parliament and to significant changes in the eventual Bill and Act. Government economic and industrial policy was conditioned and constrained by the circumstances in which it found itself. It began as a minority government and even after the second 1974 Election its majority was small (to disappear later through by-election losses necessitating a Parliamentary pact with the Liberals for survival). It felt obliged to place repeal of the Conservative Government's industrial relations and trade union legislation high on its list of priorities. Following previous rapid monetary expansion, the oil and commodity price explosion and relaxation of curbs on income growth, inflation accelerated steeply in 1974-1975, calling for action. At the same time, the economy dipped into the deepest recession since the thirties, causing the Government to see a need to repair business confidence, already damaged by its industrial relations policies. Furthermore, towards the end of its life the Government
became preoccupied with the issue of Devolution for Scotland and Wales, an issue that led to its defeat and the dissolution of Parliament in 1979.

The 1975 Industry Act did bring the National Enterprise Board into being and gave authority to Planning Agreements - but in greatly watered-down form. Although the NEB could deploy much greater financial resources than the IRC, in some respects it was to be even more tightly constrained by commercial considerations. Like the IRC its objective was to promote industrial efficiency, employment and the balance of payments, but it was to invest only in projects which it believed would be profitable (unless otherwise directed by the Secretary of State for Industry). It could bring problems needing action to the attention of the government, but it was not required to seek out such problems. On Planning Agreements, the crucial difference between the White Paper and the Act was that they were now to be voluntary, not compulsory. Furthermore, the trade union role in Planning Agreements was much reduced.

The Government, however, helped in the rebuilding of confidence by reviving the work of the NEDC which at a special meeting in November 1975 discussed and agreed the text of a White Paper "An Approach to Industrial Strategy". Our main interest in this is in the ideas expressed rather than in any actual achievements of the strategy. Although it led to much discussion and paper-work by tri-partite industrial sector working parties under the auspices of the NEDC Economic Development Committees, there is little evidence of any consequent industrial restructuring or changes in
government policy. The White Paper once again rated faster economic growth as the primary objective with emphasis on manufacturing industry rather than services. "Our prime objective must be to become a high output-high wage economy. This can only be achieved by improving our industrial performance and raising the growth of our productive potential......For its part, the government will have to continue maintaining a balance between economic and social objectives which often have conflicting implications. Nevertheless, the government intends to give greater weight, and more consistency than hitherto, to the need for increasing the national rate of growth through regenerating our industrial structure and improving efficiency" (my italics). The idea of a new top-down national plan was rejected in favour of first asking industries to express their own ideas on prospects and obstacles to growth.

The government would publish its own (macro-economic) medium-term assessment; this would not be an indicative plan but a range of alternative working assumptions. The planning model was the exchange of information: more information than that obtained through normal market involvement would make it easier to identify obstacles and would enable firms to plan ahead with greater confidence. Initially, at least, such information would come primarily from the industrial sector studies. The White Paper, however, referred frequently to the NEB and Planning Agreements. The long-term national industrial strategy would involve making use of the feed-back of information from the Planning Agreements with companies (CPAs); the NEB and CPAs would facilitate the deployment of financial
assistance to industry; greater disclosure of information in tripartite discussions in CPAs would lead to improvements in planning in industry and in government. The industrial framework based on the sector studies would be used in shaping government policy, as a basis for further work by the NEDC and NEDO, and at the company level "planning agreement discussions should in due course (my italics) provide a valuable means of influencing a significant proportion of the UK's manufacturing industry.....the NEB will have a role in promoting changes in the management and organisation of individual companies as well as in securing the desired restructuring of a sector."

Perhaps three and a half more years of Labour Government were not long enough for CPAs "in due course" to make their contribution. In fact only two were signed, with the NCB and with the Chrysler motor company, and they will be assessed in Chapter VII. Chrysler's was drawn up in conjunction with application for NEB financial assistance. Assistance was forthcoming, in breach of the criterion that the project should be commercially viable. (The Industrial Development Advisory Board had advised against it.)
The Conservatives were elected in May 1979 on a "free market" platform. The interventionist institutions of the Labour Government were run down and wound up: the Price Commission was abolished in 1980 and the National Enterprise Board had its work-load cut before being merged with the British Technology Group in 1981. The chief economic objective was a permanent reduction in the rate of inflation, to be achieved through a "monetarist" macro-economic policy. As expounded by Nigel Lawson (1984), Financial Secretary from 1979 to 1981 and Chancellor of the Exchequer from 1983, hitherto macro policy had been designed to increase the rate of economic growth (through indicative planning with demand management) while some aspects of micro policy (income and price curbs) had been aimed at containing inflation. This was now seen by the Conservatives to be the wrong way round. As monetarists they believed the economy to be self-righting with a natural rate of real growth that cannot be affected (at least in the medium and long term) by macro policy. Growth, however, can be enhanced through measures to increase the competitiveness of the economy (micro policies for the supply side) and also indirectly through the effect on confidence of a less inflationary prospect. Macro policy, therefore, was to be a combination of fiscal and monetary measures to gradually reduce and then stabilise monetary expansion. The initial emphasis on a gradual reduction in the rate of increase in money supply was in line with Milton Friedman's prescription but right from 1979 stress on publicity for the money supply target and inflation forecast as a guide to
wage bargainers hinted at "rational expectations" thinking.

The macro policy was enshrined, and quantified, in a "Medium Term Financial Strategy" in the 1980 "Financial Statement and Budget Report" (HM Treasury, 1980) which has been revised in each succeeding year. In a sense this was a kind of skeleton indicative plan, giving economic agents indications of the future monetary, financial and inflationary environment in which they would making plans for their own operations. Changes in the MTFS since 1980, as detailed below, have made it look still more like an indicative plan, although its effectiveness as such may have been weakened by growing doubts about its credibility.

The MTFS in 1980 gave pride of place to the target of a gradual, year-by-year, reduction in the rate of growth of money supply (£M3) that would lead to a specified reduction in the annual rate of increase in retail prices - for four years ahead. Fiscal and monetary policies were linked through a relationship between money supply growth and the Public Sector Borrowing Requirement (PSBR) which was given in value and expressed as a percentage of Gross Domestic Product (at current market prices). Thus it was possible to derive government forecasts of GDP at current prices and, from the forecast inflation rate, at constant prices for four years ahead. Subsequently, money supply growth has been seen more as an intermediate target and £M3 as less appropriate than MO in that role. In the 1986 version of the MTFS the annual percentage change in "Money GDP" has pride of place in the first table of the chapter (followed by MO) and
the second shows forecasts of, or rather "assumptions" on, "Real GDP" and inflation as indicated by the GDP deflator. Not until the fifth table is PSBR shown.

Nevertheless, although the MTFS may look more like an indicative plan, it is not described as such but as "the framework for economic policy intended to bring inflation down further over a period of years.....It is complemented by (micro) policies which encourage enterprise, efficiency, enterprise and flexibility, thus (my emphasis) promoting the growth of output" (HM Treasury, 1986). Furthermore, although "policy will be directed at maintaining monetary conditions that will bring about a gradual reduction in the growth of money GDP over the medium term ...... the money GDP figures are not targets ..... and fluctuations will inevitably occur." It is now apparent that the money and inflation forecasts by themselves have little direct effect on expectations; rather the hope is that the MTFS insofar as its objectives are realised contributes towards a general climate of lessening inflationary expectations. There is, of course, no place for company planning agreements in Conservative policies for industry.

Whether or not the relationships have been cause and effects, the MTFS has been accompanied by a decline in the rate of inflation, remarkably steady economic growth and unemployment (which had been rising steeply under Labour) mounting for five years before reaching and passing a new peak.
The 1979 General Election defeat sparked off a new and bitter debate between left and right in the Labour Party, focussed on the failure to implement the economic policies of Labour's "Programme 1973", including compulsory CPAs, public ownership of leading companies in manufacturing and a powerful NEB, and on the resort to, in effect, monetarist policies to combat inflation. In the economics context, the debate was on the form and content of Labour's "Alternative Economic Strategy" (AES).
CPAs form an essential part of the AES as a means of harnessing the power of "big business" and as channels through which policies on employment, imports etc might be implemented. They also feature in wider aspects of the AES, eg "to increase popular involvement in all areas of life" (Aaronovitch, 1981, p 3). There is, of course, no one, definitive text of the AES. It was expressed in various forms in the 1974, 1979 and 1983 General Election manifestos of the Labour Party so heavily influenced by Stuart Holland. But according to their place in the political spectrum, different supporters see it differently. On the right and centre of the Labour Party it is seen primarily in economic terms with economic ends, in particular as a means of checking de-industrialisation, reducing unemployment and promoting economic growth. Further to the left, Holland sees the AES (not a phrase he uses in his books) as itself the means of social (socialist) transformation. To others in the Labour Party, and to Aaronovitch and the Euro-Communist majority of the Communist Party of Great Britain, it is a limited, but immediately practicable, step towards a socialist reconstruction by which "millions who do not see themselves as socialists........would come to recognise the need for a more radical and socialist transformation" (Aaronovitch, 1981, p 3). Still further to the left, the AES is criticised as "grafting weakened pieces of socialism on to sturdy capitalist stock" (Glynn & Harrison, 1980, p 161).

Academic antecedents of the AES are to be found in the work of the Cambridge Economic Policy Group (so called "New Cambridge") who saw evidence of endemic weakness in the UK economy that could not be cured by
orthodox demand management reflation or indicative planning ("Old Cambridge"). Such policies would lead to still worse inflation and balance of payments disequilibrium than experienced during the sixties and early seventies. Because British industry had become so uncompetitive, the growth of imports would have to be restrained (largely by higher tariffs) while reflation and the restructuring of industry took place. Godley (1979) argues that such protection would not, or need not if properly explained, provoke international retaliation since imports could still grow faster then they would into the alternative and more depressed Britain. Nevertheless such proposals have an autarchic flavour. Holland in fact adopts a more internationalist stance, especially in "Beyond Capitalist Planning" (1978) and "Out of Crisis" (1983), but it is clear that his concept of planning agreements fits well into the restructuring of industry part of the CEPG policy.

While noting different emphases and stances among advocates of an AES, we may see Aanonvitch (1981) as a reasonable summary of its main, generally accepted features. The first priority is economic expansion - to satisfy new needs, create a better climate for innovation, stimulate productivity growth in manufacturing industry so as to free more resources for services, leisure activities and overseas aid. It should not, however, be so rapid as to cause significant environmental and welfare losses, even though it would be difficult to restore full employment through expansion. The expansion would be engendered by cuts in indirect taxes and by increases in public spending - to meet social needs and boost demand on private sector
suppliers. There would also be a need for substantially increased investment in the private sector which might well not be stimulated sufficiently by Keynesian expansion of aggregate demand alone. Thus there would be an increased role for the state in investment in energy supply and conservation, transport and new technology etc. But even when investment had been raised, it would still be necessary to take special job creation and retraining measures to raise employment levels. Inflation too would have to be prevented from accelerating, by flexible price controls. Aaronovitch concludes his "expansion" chapter with a somewhat fuzzy description of how a necessary central wages policy could be reconciled with free wage bargaining by trades unions.

He then turns to (democratic) planning, the basic justification of which is the basic human right for people to be involved in decisions affecting them. Since economic and hence political power is so concentrated, eg in 200 large companies, there must be a major change in social and property relations. This involves increased public ownership - on a more democratic basis than present public corporations; Aaronovitch would extend public ownership rather farther than Holland - and CPAs. Aaronovitch makes the point that overcentralised planning is not only wrong in (democratic) principle but also in practice because of forecasting impossibilities, complexities of modern economic relationships, lack of power and information deficiencies. Thus, like Holland, he assigns to the Central Government a limited number of "crucial national macro-economic decisions: the shares of investment, personal and collective consumption;
the distribution of income; major (long-term) investment decisions.....and regional policies" Enterprises would then be left to operate according to normal market and price mechanisms, subject to observance of a "code of conduct", presumably central in the CPA.

From the experience of the 1974-1979 Labour Government, Aaronovitch draws three conclusions about CPAs:

1. They must be compulsory (for 200 or 300 firms).
2. The workforce, especially trade unions/shop stewards, must be involved.
3. They can only properly be set up within the framework of some "overall set of national objectives."

Distinctively, however, Aaronovitch also stresses the importance of small and medium-sized firms, often the main employers apart from public services and local authorities in the inner cities. Here there could be planning agreements between local government and firms. This idea has been developed further by Sheffield City Council, the West Midlands Metropolitan Council and the Greater London Council.
The London Industrial Strategy (GLC, 1984) is a regional plan which it was hoped could work independently of any national plan. The Greater London Enterprise Board (GLEB) had a crucial role akin to that of the NEB in assisting and funding business developments, especially when they were tailored to meet social needs and increase employment (or prevent it falling). The LIS, however, was based on what might be called a post-Keynesian philosophy, as expounded by Robin Murray (1985), the GLC's Director of Industry. He argues that de-industrialisation has now gone so far that conventional reflation would merely lead to inflationary pressure and balance of payments difficulties. Furthermore, multi-national companies would still be free to obstruct government policies and, most important, reflation would be irrelevant to issues raised by current transformation of production - what Murray calls the change from Fordism (mass production) to "Neo-Fordism" or flexible specialisation.

Flexible specialisation means the computerisation of all stages of planning and production and distribution processes, and the use of all-purpose machinery. It may involve much greater use than hitherto of sub-contracting and franchising and can lead to a dual labour force - one highly skilled and highly paid, the other deskilled and employed on part-time or casual terms. This development seems to have been taken furthest in Japan, Italy (the home of Benetton), Germany and Scandinavia and is causing competitive problems for British and US industry. The inference is, according to Murray, that the focus of government policy must be shifted from "money and markets" (as in macro-economic demand management..."
or indicative planning policies) to "production" so that the re-structuring that is taking place may be in the interests of labour and social need rather than capital and profit.

He does not actually invoke CPAs but they would be a natural ingredient of the system outlined on the basis of GLC experience. An NEB should be the primary instrument of public intervention in industrial re-structuring. It would assist medium-sized firms otherwise incapable of the innovation necessary to meet international competition and some multi-nationals might also need such assistance to "escape from Fordism". For this a new system of investment appraisal and social accounting would have to be devised and the workforce must be involved, not only on democratic grounds but also to tap their "deep knowledge". The result would be "detailed popular planning, sector by sector and firm by firm, and... a capacity for intervention at a national, as well as a local, level".

Such concentration on micro-economics is criticised by Glynn (1985 a, 1985 b): at best, the LIS and comparable initiatives throughout the country would only create about 50,000 jobs a year. Macro measures, including greatly increased public expenditure, within a coherent sector, regional and national plan are necessary to create "a million jobs a year". At the same time, there would have to be effective controls over foreign exchange movements, trade, prices, credit and investment. "The credit system......and all the commanding heights of the economy" must be nationalised and all major companies subjected to "thoroughgoing democratic
planning and control", i.e. compulsory planning agreements with the workforce as well as government.

Interestingly, Aaronovitch (1986) has developed doubts about the AES as previously expounded. He agrees with Murray that the character of the problem has changed with the increase in unemployment, the extent of de-industrialisation and technological change, and developments in international banking and finance, but macro expansion of public expenditure is called for. New priorities are to meet social needs, through improved social services, and the modernisation of industry, through central and local government intervention.

The development and exposition of official Labour Party policy, however, is in the hands of Roy Hattersley (Shadow Chancellor) and John Prescott (Spokesman on Employment). A series of policy statements reveal developments based on early seventies thinking and experience in government from 1974 to 1979 (TUC/Labour Party 1982, 1985; Labour Party 1985; Prescott 1985). There would be several institutional innovations and changes in an "interventionist" rather than indicative approach to planning. These include a Department of Economic and Social Planning, complemented by regional planning boards; a restructured NEDC to form a National Planning Council that would produce a National Economic Assessment and coordinate the work of Sector Planning Committees; a British Enterprise Board (the NEB recast) which would work with local enterprise boards; and a National Investment Bank.
CPAs would be important - although Hattersly (1985) believes their importance has been "grotesquely overstated" - in controlling multi-nationals and in conjunction with the National Investment Bank and the work of the Sector Planning Committees. Leverage on multi-nationals would be exercised through the requirement to enter a CPA before assistance, eg in location, was granted by government, through public sector purchasing policy, through inter-governmental and international agreement and through support for international trade unionism. It is not clear that attempts would be made to oblige multi-nationals to enter CPAs if they were not seeking assistance. In the case of domestic companies also, it seems that CPAs would be compulsory for firms in receipt of assistance such as cheap loans from the NIB. Thus acceptance of financial assistance would entail wider contractual obligations than simply carrying through the project in question and sticking to the terms of repayment, including acceptance of employment, labour relations and environmental obligations.

Much emphasis is placed on the work of Sector Planning Committees which would be very different from previous and surviving industry and sector EDCs. They would have statutory power to negotiate with firms and compel disclosure of information deemed necessary for the development of sector plans. These plans, striking a balance between social and commercial objectives, would be used in inter-sectoral and overall planning and could also be used by smaller firms as a basis for their long term planning. The
CPA concept fits in with this type of planning but it is not made clear whether CPAs would be compulsory for all firms above a certain size.

The SDP, the Liberal Party and together as the Alliance produced economic and policy papers which stress competition policy and the need to encourage small businesses and co-partnership more than Labour and the need for intervention more than the Conservatives. There is also frank acceptance of the necessity for incomes policies. There is much about consultation and consensus-building, eg through the NEDC, and about political structures. SDP policy (see Policy Document No 1, 1984) speaks of constructing a "strategy" (not planning) for growth. In this there would be selective intervention - to speed up change and mitigate the social costs of the contraction of sectors which have diminishing markets. Intervening agencies would be an expanded British Technology Group (with which the NEB has been merged) and public purchasing policy. There a hint of some form of CPA system or at least some contractual arrangement in the statement (in Policy Document No. 2, 1984, page 11) that "the government should use large and established firms as one agency through which to implement its national innovation policy as French governments since the war have always done". Liberal Party Policy statements (eg Cowie, 1984) concentrated on aggregate demand management in consort with a decentralised incomes policy and industrial democracy, with no hint of anything like CPAs. There is also the Alliance "Worksearch" project from which has come a plan for economic regeneration in Yorkshire and Humberside (Cummins, 1986). This contains proposals for local government reform and innovation,
regional financing of industry and expenditure on education and infrastructure, with nothing about company planning and interrelation with local and regional institutions.
5 Experience with Planning Agreements in other Countries

Holland’s advocacy of CPAs was inspired by knowledge of planning agreements elsewhere in Western Europe, notably France, Belgium and Italy. French experience is the most extensive but the Italian has had more impact in specific sectors while in Belgium more of a theoretical, systematic basis has been developed.

Holland (1975, page 323) suggests that some of the credit for the emergence of Belgium from slow growth in the 1950s is due to selective government financial assistance to industry through a planning agreement system. While it is true that Belgian growth was relatively sluggish and did accelerate, it is not clear how far this was due to government intervention and how far to the spur of competition through Belgian entry first into the Benelux customs union and then the EEC. There are four types of agreement or contract, entered into voluntarily but signed by both government and large companies: contrats de programme on big business price increases; contrats de progrès covering government finance and purchasing policy in advanced technology and innovative industries; contrats prototype to ensure state control, for example, through equity participation in return for sponsorship of research and development in nuclear power etc; and contrats de gestion chiefly in the public sector where management reorganisation is made a condition for increased state funding (Holland 1975, page 226, and 1978, page 211). Holland argues (1975, page 226) that the system would be more effective in influencing multinational companies
if there were more public sector enterprises in manufacturing through which leverage could be exercised.

In Italy, contrattazione programmatica have been signed principally with the large, substantially autonomous public enterprises. They were introduced in 1968, with the specific aim of promoting the development of manufacturing industry in the South, the Mezzogiorno. Their content was exchange of planning information between government and industry and provision of incentives for industrial investment. The chief industries covered have been motor vehicles, chemicals and steel. Increased investment in the South did follow, but Archibugi (1978) argues that business interests became dominant over government interests and that the initial hopes of involving medium and small sized firms in the system failed. Furthermore, Holland argues that the government failed to exercise the "full leverage of information" available to it from the state sector to influence private sector companies and back up the planning agreement system.

In France, contrats de programme were introduced, also in 1968, nominally to monitor and control price increases in big business (more effectively than the contrats de stabilité from 1965). They involve disclosure of and hence evaluation of cost structures including research and development and imports from foreign-based subsidiaries. They have been signed by both public and private enterprises; according to Green (1982) the latter have been more successful. Public sector contracts were deployed in implementing
the proposals of the 1976 Nora Report which recommended more commercial policies for state industries. Accordingly, contracts were drawn up which gave management of such industries more scope to exercise entrepreneurial initiative in marketing, borrowing, wage settlements and actual price-fixing in return for agreement on specific performance targets and to toe the line on government overall price stability objectives. The chief reasons why they have not been adhered to are first, the pressures on the government to resort again to short-term intervention in the affairs of state industries in the wake of the 1974 and 1981 oil price rises which in any case rendered obsolete contracts with energy and energy-related industries and second, the weak financial position of most state industries. By contrast, contracts in the private sector have been made, on a voluntary basis, chiefly with successful or potentially successful companies in growth industries, such as electronics. Subsidies and cheap loans and temporary import curbs have been made available in return for agreed performance targets, with sanctions, eg retrospective increases in interest, for failure to meet objectives. Estrin and Holmes (1984, cited in Hare, 1985) conclude that the system has persuaded some companies to make longer-term plans than they otherwise would and enabled government involvement in key industries without any call for day-to-day interference.

Finally, we may note a CPA without the name in the USA. Chrysler Motor Company was saved through Federal finance. Successive tranches were advanced only on achievement of agreed specific performance indicators.
IV THE CASE FOR CPAs

1. Introduction

The concept of company planning agreements came out of the debate on the failures of indicative planning in Britain in the 1960s, especially the 1964 National Plan. It was argued that individual companies ought to have been directly involved in national economic planning which should be a continuing, evolving process rather than a one-off exercise. To this end the involvement of at least the largest companies should take the form of a formal agreement between Government and the company on strategic plans (covering such topics as location of investment, manpower and environmental issues on the part of the company and financial, physical planning and infrastructure investment on the part of Government).

Nevertheless, while they may be justified as an innovation that will enable indicative plans to work, they may also be seen as important means to economic, social and political ends even in the absence of an indicative plan. There are therefore many varieties of CPA. From the following table of alternative CPA features, comparisons may be drawn between Holland's original proposals, the provisions of the 1975 Act and the local authority variant as suggested by Murray (1985).
### TYPOLOGY OF COMPANY PLANNING AGREEMENTS

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Status</td>
<td>Compulsory with sanctions</td>
</tr>
<tr>
<td>2</td>
<td>With programme for extended public ownership</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>In conjunction with national indicative plan</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>With government</td>
<td>Central</td>
</tr>
<tr>
<td>5</td>
<td>With trade union involvement</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Holland proposals:  
- 1A 2A 3A 4A 5A  
- 1B 2B 3B 4B 5A

1975 Act  
- 1B 2B 3B 4A 5A

Local variant  
- 1B 2B 3B 4B 5A

In the context of an indicative plan, the function of CPAs is first, in the information gathering part of a plan of the Meade model or the Estrin and Holmes variant (Estrin and Holmes, 1983) discussed below, and second, in a
more imperative part of a plan to ensure the planners' objectives are promoted rather than obstructed by the behaviour of very large enterprises, especially multinational companies whose international interests may diverge from the national economic or industrial sector interest. In both of the 1960s plans and in the continuing work of the industrial Economic Development Committees of the National Economic Development Council, the unit was the industry, not the enterprise (except in the case of public corporations). Thus trade associations commonly played an important role in information gathering and as a forum for debate on the industry's response to national planning initiatives. This gave rise to several problems.

In a competitive industry, companies may not supply to the trade association accurate or full information on future plans that would be of value to competitors. For the same reason, contributions to the debate on a plan may be inhibited. However, even if a satisfactory response of the industry to the plan is agreed through the association and the EDC, the association has no executive authority to implement the plan. Responsibility for execution remains with the individual company. Therefore, it is argued, the central planners must deal directly with companies and then there must be some form of contractual agreement to ensure accuracy of information and that the plan is not deliberately frustrated by contrary action by companies. Clearly it would not be practicable to require all companies to make such contracts, but compliance by the large companies only would be enough.
A further problem in indicative planning is that posed by very large businesses operating in several industries and/or several countries, designated "the meso-economy" by Stuart Holland. Such a business may account for a large, even dominating, proportion of an industry's activity, but its objectives for that part may not coincide or could be inimical to the objectives of the remainder of the industry and the industry's role in the plan. This could be because of horizontal integration, for example, the industry being supplier to another in which the business has an important stake, or because its international interests conflict with the national interest. In such cases, the intention would be to protect the industry and national interest through bargaining sealed in a planning agreement.

Without the framework of an indicative plan, there is a potential role for CPAs in furthering government economic policies of an interventionist nature with the intention of improving economic efficiency. The government may wish to steer large companies' long-term programmes of investment and technological development in a particular direction or with different emphases or rates of growth. Or the government may want contractual agreements with companies on pay and manpower policies.

CPAs may also be useful in implementing and forwarding social policies, with or without an indicative plan. Regional development, general employment creation and sectional employment policies, for example, insofar as they are dependent on business cooperation require bargaining over incentives and commitments which may be formalised in a CPA. Finally,
CPAs may be used to advance political objectives. Through the involvement of trades unions and the workforce, industrial democracy and participation generally may be developed; and, by reshaping the objectives and/or strategies of businesses, they may make a contribution towards the (socialist) transformation of society.

These justifications for CPAs will be developed in the sections that follow. It will be necessary to examine the role of very large businesses, especially multi-nationals, in the meso-economy. It will also be necessary to consider both the theory of indicative planning and the reasons for the failures of the indicative plans of the 1960s in greater depth.
2. The Meso-Economy

Holland claims that the companies making up the meso-economy are able to restrict competition and so charge higher prices causing real economic loss through erecting barriers to entry. Through their ability to arrange transfer prices between subsidiaries, multinationals among their number can distort international trade. There are, however, ways of disguising such activities. Declared profits can be 'managed' so as not to appear excessive with profitability in line with or lower than in smaller competing companies. Smaller firms may even be sheltered so as to avoid the strictures of anti-merger and monopoly policies.

Such charges are difficult either to prove or disprove. But Holland's thesis assumes a growing meso-economy and one which is growing more powerful. He emphasises the increased concentration of manufacturing industry in the first 70 years of this century as demonstrated by Prais (1976) and extrapolates it to 1980 and beyond. The top 100 companies in manufacturing have accounted and will account for an ever increasing proportion of total net output. By the same token, there is an ever diminishing number of companies above a certain size in real terms. Thus Holland as an illustration of the number of companies that might be required to make planning agreements cites the 180 companies that, with a turnover of £50 million or more, formed "Category I" in the Price Code system in 1973. As time goes on, concentration will increase and the number of companies to be tightly supervised will fall.
Allowing for inflation (using the "total home costs" GDP deflator) £50 million in 1973 was worth £138 million by 1985. Alternatively, allowing also for economic growth (as reflected in the increase in the value of GDP, averaging the income and expenditure methods) it was equivalent to £232 million in 1985. According to the Financial Times "Top 500" (26 November 1986) there were 205 companies with turnover in excess of £198 million and 188 in excess of £232 million in 1985. This suggests little, if any, increase in concentration in 12 years. These companies are not restricted to manufacturing. But possible weaknesses in Holland's case are his emphasis on manufacturing, which is of declining importance in the UK economy, and reliance on a projection of the past rate of increase in the top 100's share of output.

On the basis of this measure concentration has not changed much since 1970. Hannah (1976) calculated that the top 100 companies accounted for 45% of net output in manufacturing industry in 1970 while Prais's (1976) estimate was 46%. Census of Production Reports (Business Monitor PA 1002) show that comparable figures were 43.3% in 1971, 49.4% in 1979 and (on the new Standard Industrial Classification) only 45.9% in 1985. These figures relate to private sector enterprises employing 100 persons or more. A more comprehensive series shows the top 100 private enterprises' share of all manufacturing net output. As well as showing a lower level of concentration, this shows some increase between 1971 and 1979, but subsequent easing to just 37.3% in 1985.
### Top 100 Companies Share of Manufacturing Output

<table>
<thead>
<tr>
<th>Year</th>
<th>Total manufacturing net output</th>
<th>Top 100 private sector enterprises</th>
<th>Top 100 as % of total net output</th>
<th>Top 100 as % of firms employing 100 more</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>£20,624</td>
<td>£7,662</td>
<td>37.1</td>
<td>43.3</td>
</tr>
<tr>
<td>1972</td>
<td>£22,785</td>
<td>£8,509</td>
<td>37.4</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>£26,600</td>
<td>£10,651</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>£33,048</td>
<td>£13,207</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>£36,948</td>
<td>£14,769</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>1976</td>
<td>£44,434</td>
<td>£17,797</td>
<td>40.1</td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>£50,862</td>
<td>£20,012</td>
<td>39.3</td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>£56,834</td>
<td>£22,161</td>
<td>39.0</td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>£66,351</td>
<td>£26,713</td>
<td>40.2</td>
<td>49.4</td>
</tr>
<tr>
<td>1979#</td>
<td>£64,143</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980#</td>
<td>£68,475</td>
<td>£26,388</td>
<td>38.5</td>
<td></td>
</tr>
<tr>
<td>1981#</td>
<td>£70,615</td>
<td>£27,070</td>
<td>38.3</td>
<td></td>
</tr>
<tr>
<td>1982#</td>
<td>£74,817</td>
<td>£29,574</td>
<td>39.5</td>
<td></td>
</tr>
<tr>
<td>1983#</td>
<td>£80,804</td>
<td>£32,165</td>
<td>39.8</td>
<td>48.2</td>
</tr>
<tr>
<td>1984#</td>
<td>£87,810</td>
<td>£32,657</td>
<td>37.2</td>
<td>45.4</td>
</tr>
<tr>
<td>1985#</td>
<td>£94,385</td>
<td>£35,115</td>
<td>37.3</td>
<td>45.9</td>
</tr>
</tbody>
</table>

Source: Annual issues of "Census of Production Summary" (Bus. Mon. PA 1002)

* 100 largest in terms of net output  
# On 1980 SIC
Further comment on this concentration plateau requires investigation of its sectoral pattern. Five industries accounted, in 1983, for 60% of the Top 100 companies net output but only 42% of all net output, their degree of concentration ranging from 71% to 43%.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Total net output £ million</th>
<th>Net output by Top 100 £ million</th>
<th>Top 100 as private sector enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicles</td>
<td>4,382</td>
<td>3,105</td>
<td>71</td>
</tr>
<tr>
<td>Office machinery</td>
<td>1,151</td>
<td>808</td>
<td>70</td>
</tr>
<tr>
<td>Food, drink, tobacco</td>
<td>12,203</td>
<td>7,291</td>
<td>60</td>
</tr>
<tr>
<td>Electrical and electronic eng.</td>
<td>8,031</td>
<td>4,568</td>
<td>57</td>
</tr>
<tr>
<td>Chemicals</td>
<td>8,124</td>
<td>3,517</td>
<td>40</td>
</tr>
<tr>
<td>All other</td>
<td>46,913</td>
<td>12,875</td>
<td>27</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>80,804</td>
<td>32,265</td>
<td>39.8</td>
</tr>
</tbody>
</table>

Source: "Census of Production Summary" (Business Monitor PA 1002)

Straightforward comparisons of these figures with pre-1980 ones are prevented by the change in the SIC. The Index of Industrial Production,
however may be called in aid. During the nineteen sixties and seventies, when concentration was increasing, output of these industries was growing at an above average rate. From 1979 to 1983 their output fell, not markedly less than average, but from 1983 to 1987 it rose again at an above average rate. This indicates some positive relationship between overall concentration and the rate of growth of the most concentrated industries. It may well be that the recent recession held back the process of concentration and that recovery has set it going again. However, as will be discussed later, it is likely that growth in manufacturing will not continue at the 1983-1987 rate, that its share of total output will decline and that small and medium size firms will be responsible for much of what growth there is.

More detailed industrial and other sectoral analysis will follow, but the provisional conclusion is that concentration in manufacturing has not increased and is unlikely to increase in future at anything like the rate forecast by Holland.
Manufacturing Output Growth

% per annum

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentrated industries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>1.6</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Drink and tobacco</td>
<td>3.7</td>
<td>3.2</td>
<td>-1.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Chemicals</td>
<td>6.1</td>
<td>3.9</td>
<td>-0.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Electrical and instrument eng.</td>
<td>5.2</td>
<td>3.0</td>
<td>1.5</td>
<td>5.9</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>4.1</td>
<td>-1.5</td>
<td>-7.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Total above</td>
<td>4.1</td>
<td>2.0</td>
<td>-2.1</td>
<td>4.3</td>
</tr>
<tr>
<td>All other</td>
<td>2.2</td>
<td>0.2</td>
<td>-3.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Total</td>
<td>2.8</td>
<td>0.9</td>
<td>-3.0</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Sources: National Accounts "Blue Books" for 1983 and 1986; "British Business"

A sector where concentration is high and still increasing is retailing. Again, it is much greater in some sub-sectors than others. There are various measures. The retail enquiry for 1984 shows the turnover by commodity group accounted for by the largest five and the largest ten enterprise groups. Apart from the relatively small TV hire area, concentration is greatest in food and clothing.
Concentration Ratios in Retailing in 1984

<table>
<thead>
<tr>
<th>Commodity Group</th>
<th>Turnover £ million</th>
<th>% accounted for by largest:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Five groups</td>
<td>Ten groups</td>
</tr>
<tr>
<td>Food</td>
<td>25,866</td>
<td>28.2</td>
</tr>
<tr>
<td>Drink, confectionary, tobacco</td>
<td>12,017</td>
<td>14.5</td>
</tr>
<tr>
<td>Clothing, footwear, leather</td>
<td>13,134</td>
<td>30.3</td>
</tr>
<tr>
<td>Household goods</td>
<td>16,329</td>
<td>15.7</td>
</tr>
<tr>
<td>Other non-food goods</td>
<td>12,871</td>
<td>20.3</td>
</tr>
<tr>
<td>Hire and repair</td>
<td>1,498</td>
<td>61.8</td>
</tr>
<tr>
<td>Total retail trade</td>
<td>82,342</td>
<td>15.6</td>
</tr>
</tbody>
</table>

Source: "Retailing" (Business Monitor 0025) Business Statistics Office.

This measure was only introduced in 1982 and the figures for that year are not in the same broad commodity groups. They do show, however that between 1982 and 1984, the largest five and the largest ten increased their share of total retail trade from 14.4% to 15.6% and from 22.0% to 23.8% respectively, and of, for example, footwear sales from 43.3% to 44.25 and 52.8% to 53.3% respectively.

An alternative measure is the percentage of trade held by enterprises of above a certain size. In the monthly Retail Sales, "large" businesses are those having turnovers of £2 million or more in 1982 and "very large" those over £9 million.
Shares of Retail Sales accounted for by large businesses

<table>
<thead>
<tr>
<th>%</th>
<th>1980</th>
<th>1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocers</td>
<td>79.6</td>
<td>87.6</td>
</tr>
<tr>
<td>Very large grocers</td>
<td>56.8</td>
<td>71.3</td>
</tr>
<tr>
<td>Men's and boy's wear</td>
<td>53.1</td>
<td>58.6</td>
</tr>
<tr>
<td>Women's, girls and infants wear</td>
<td>44.6</td>
<td>57.4</td>
</tr>
<tr>
<td>Household goods</td>
<td>48.7</td>
<td>56.8</td>
</tr>
<tr>
<td>All businesses</td>
<td>62.9</td>
<td>68.6</td>
</tr>
</tbody>
</table>

Source: derived from "Retail Sales" (Business Monitor SDM28), April 1988

Further size rankings are compiled by The Financial Times. The FT Top 500 is a survey of Europe's biggest companies. The main emphasis on ranking by stock market capitalisation, which is of limited use in the present context but there are also rankings by turnover and employment. Ranked by turnover, the 50th UK company (Northern Foods) is 126th in Europe. This ranking, however, excludes the financial sector. Analysed by sector, the UK top 50, classified by main activity, are as follows:
Top 50 UK Companies

<table>
<thead>
<tr>
<th>Industry</th>
<th>Turnover ranking</th>
<th>Employment ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing, of which</td>
<td>27</td>
<td>31</td>
</tr>
<tr>
<td>Food</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Brewers</td>
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<td>Transport and communications</td>
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<td>Food retailing</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Stores</td>
<td>5</td>
<td>5</td>
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<td>Overseas traders</td>
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<tr>
<td>Banks</td>
<td>not applicable</td>
<td>4</td>
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<tr>
<td>Leisure services</td>
<td>nil</td>
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By either criteria, over half the largest companies are in manufacturing, spread, as already seen, over a number of individual industries. The big oil companies are well-known as multi-nationals and candidates for government intervention. There is a traditional public interest in mining, utilities, transport and communications. Apart from overseas traders, there remain retailers, notably food (matching parallel concentration in food manufacture), leisure services and banking.

While concentration has not increased during the seventies and eighties as rapidly as during the fifties and sixties, it is nevertheless appropriate to
consider whether the meso-economy has behaved during the past decade in ways which could justify government intervention and control that might be affected by the imposition of planning agreements. To do this it will be necessary to look at individual sectors. And it may well be that meso-economic activity is socially and economically significant in consumer goods sectors as well as in the traditional "commanding heights" heavy industry sectors. Accordingly, illustrative analysis will be made of the motor industry and of food manufacture and distribution, as well as multi-nationals.

The Motor Industry

This is the most concentrated industry listed on page 95 and the one whose output declined the most in the seventies and eighties. Mass production of cars in the UK is in the hands of four producers: the Rover Group, Ford, the Vauxhall subsidiary of General Motors and the Talbot subsidiary of Peugeot. Government involvement has a long history. During the fifties and sixties period of demand and capacity expansion, governments succeeded in obliging companies to site new plants away from the high-employment and allegedly congested Midlands and South East, where the industry is traditionally located, to the North West and Scotland where unemployment was relatively high. When the period of contraction came, these new plants tended to be the first to be closed. In the seventies, one of the only two Planning Agreements signed was with the Chrysler Motor Company (later Talbot) and the government rescued British Leyland (now Rover) from
financial collapse, acquiring almost all its equity capital. The
government has also negotiated a maximum market share for Japanese imports.

In the sixties, the motor industry was seen as one of the most likely to
benefit from UK membership of the EEC. In the event, import penetration
of the UK car market increased from 14% in 1970 to 56% in 1979, changing
little subsequently, while production for export fell from 723 thousand in
1970 to 392 thousand in 1979 and 188 thousand in 1986 before recovering a
little in 1987. The UK market in total has grown from 1.3 million in 1971 to
2.0 million in 1987, with sharp intermediate peaks in 1971-72 and 1979
followed by severe recessions.

The industry is highly internationalised; not only the multi-nationals but
also British Leyland have imported complete vehicles, assembled cars built
abroad and made substantial use of imported components. Likewise major
components manufacturers such as Lucas have viewed markets on a continental
rather than national basis. For this reason national production figures,
without domestic/foreign content percentages, mean little. Changes over
time in the import/export balance and in UK market shares reflect not only
changes in competitiveness but also changes in company strategy.
## The UK Car Market by Make

<table>
<thead>
<tr>
<th>Model Year</th>
<th>BL/Rover</th>
<th>Ford</th>
<th>Gen.</th>
<th>Chrys/Audi</th>
<th>Datsun/Renault</th>
<th>Nissan</th>
<th>Peug.</th>
<th>VW</th>
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<th>Fiat Group</th>
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### thousands

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<thead>
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<th>BL/Rover</th>
<th>Ford</th>
<th>Gen.</th>
<th>Chrys/Audi</th>
<th>Datsun/Renault</th>
<th>Nissan</th>
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### % of total

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<th>Gen.</th>
<th>Chrys/Audi</th>
<th>Datsun/Renault</th>
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<th>Peug.</th>
<th>VW</th>
<th>Volvo</th>
<th>Fiat Group</th>
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<td>3.9</td>
<td>3.5</td>
<td>3.7</td>
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</tr>
</tbody>
</table>

Source: Society of Motor Manufacturers and Traders
THE UK CAR MARKET

Total new registrations

Imports

Production for Export

million

Exports fell when multinationals ceased to export from UK plants. The share of imports rose when multinationals began to import cars assembled in their plants elsewhere in Europe. It is therefore apparent that company policy could conflict with the targets of a national economic plan if such a plan included increased car output (as part of a regional plan for employment, for example), thus providing a case for government intervention. But it is also apparent that such intervention in the past, e.g., government agreement with Japanese producers to limit imports, has not succeeded in preventing a fall in output and employment.

Recent Labour thinking is not thereby deterred from seeing the motor industry as a prime candidate for deployment of economic planning. It forms one of three case studies in Gilhesby et al. (1986) in which it is regarded as axiomatic that a UK car production capacity must be preserved. What is new is recognition that policy for the manufacturing industry should be within the context of an "integrated policy for private and public transport", with social considerations—pollution and other environmental problems, the cost of accidents, concern for the poor—as well as economic taken into account in formulating objectives. Thus car design and incorporation of new technology should be influenced not only by market economic forces.

No scope for increased public ownership is seen, except for privatised parts of British Leyland, but leverage could be exerted on the multinationals to meet government objectives through the threat of import
controls (which should in any case be used to increase the Rover Group share) and through government financial and other assistance for investment being made conditional - all embodied in a Planning Agreement which would include adequate information-disclosure requirements for both employee and government monitoring.

If it is recognised - as it seems to be by Gilhesby - that planning objectives must be limited to "steering, bending or moderating" market forces, rather than changing their direction, then such a role for planning agreements in this industry is plausible. Assessment of how effective they would be in practice requires the assessment of multi-nationals that follows. Further consideration of the Rover Group Corporate Plan - revealed when the EEC Commission insisted on competition safeguards in the British Aerospace takeover in 1988 - as an example of what can and what should not be done in circumstances similar to those of a CPA is in Chapter VII.

Food

Increased concentration in food retailing may be seen as the development of a countervailing force to an already concentrated food manufacturing industry - with the consumer the beneficiary. This development has not been the product of spontaneous market forces but has owed much to legislation, in particular the banning of Resale Price Maintenance by manufacturers. Prior to this enactment, in 1964, food manufacturers
generally prescribed the prices at which their products were to be sold by retailers. Price was seen as a crucial part of the brand image established and sustained by advertising - to the consumer by the manufacturer. There was little advertising by retailers.

Abolition of RPM gave large food retailers scope to bargain with manufacturers for lower prices for their bulk orders for branded products. They were also able to use their new bargaining power and exploit competition among manufacturers to develop 'own brands' at prices below those of branded products. Consumers were seen to benefit through:

(a) lower prices, especially in self-service supermarkets
(b) wider choice, eg branded or own-brand products.

- even though the process of concentration has meant less choice of alternative outlets.

A consequence has been a widening of regional and urban/rural disparities. This is difficult to substantiate from official statistics, but it is generally recognised that consumers in sizeable, densely populated areas where several supermarkets could thrive have enjoyed lower prices and wider choice than those in other areas. Small independent food retailers have survived - usually in voluntary chains - in out-of-town-centre, corner-shop locations; consumers have been willing to pay higher product prices for convenience and personal service.

Growing concentration in food retailing has involved many mergers in recent
years (see Marketing, 30 April 1987, page 28). The Dee Corporation and the Argyll Group have been particularly prominent in this. But the market leaders remain J Sainsbury and Tesco who increased their shares substantially in the second half of the seventies by significant and well-advertised price cuts and have held on to their enhanced shares with few take-overs. Thus far there would seem to be little cause for public concern or need for government intervention in this aspect of the meso-economy.

<table>
<thead>
<tr>
<th>Year</th>
<th>Group</th>
<th>Acquisitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>Argyll Group</td>
<td>buys Cordon Bleu (freezer centres) and Morgan Edwards</td>
</tr>
<tr>
<td></td>
<td>Fine Fare (Associated British Foods)</td>
<td>buys Pricente</td>
</tr>
<tr>
<td>1981</td>
<td>Argyll</td>
<td>buys Oriel Foods (Lo Cost and manufacturing interests)</td>
</tr>
<tr>
<td>1982</td>
<td>Argyll</td>
<td>buys Allied Suppliers (Templetons, Presto, Sno-King, Galbraith)</td>
</tr>
<tr>
<td>1983</td>
<td>Dee Corporation</td>
<td>buys Key Markets and Wellworth (Ireland)</td>
</tr>
<tr>
<td></td>
<td>Booker McConnell</td>
<td>buys Bishops</td>
</tr>
<tr>
<td>1984</td>
<td>Dee Corporation</td>
<td>buys Lemoons and International Stores</td>
</tr>
<tr>
<td></td>
<td>Argyll</td>
<td>buys Hintons</td>
</tr>
<tr>
<td>1985</td>
<td>William Low</td>
<td>buys Laws</td>
</tr>
<tr>
<td>1986</td>
<td>Barker and Dobson</td>
<td>buys Budgen, Tates</td>
</tr>
<tr>
<td></td>
<td>Dee Corporation</td>
<td>buys Woolco and Fine Fare/Shoppers Paradise</td>
</tr>
<tr>
<td></td>
<td>Bejam</td>
<td>buys Victor Value (from Tesco)</td>
</tr>
<tr>
<td></td>
<td>Argyll</td>
<td>buys Safeway</td>
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</table>

Source: Verdict

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<td>Other</td>
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</table>

Source: Verdict

In the current decade, however, the trend has been towards superstores and hypermarkets with large car parks, usually at the edge of or out-of-town. This new competitive pressure has been felt more by older, smaller supermarkets in town centres and the inner cities than by the corner independents. From the earlier table on Shares of Retail Sales it may be
seen that, while the Very Large grocers increased their share, between 1980 and 1987, Large (but not Very Large) grocers’ share fell from 22.8% to 16.3%, almost as much as the continuing decline in the (smaller) remainder from 20.4% to 12.4%. This trend has led to (and reflected) closure of town centre and inner city supermarkets — to the clear disadvantage of consumers there without cars and affected by deterioration in public transport. Hence, as well as providing grounds for arguing for subsidised improvements in public transport, there is a potential case for linking planning permission for new out-of-town developments with a requirement to preserve outlets elsewhere on social or local economic grounds. This is an example of how CPAs could be deployed — with the following conditions marshalled in support:

- A social need not met through market forces and profit-seeking activities of large companies.
- The existence of sanctions (planning permission) to influence company changes in company policy.
- A role for government (improved transport and other infrastructure).
- Need for detailed discussion between government, community representatives, unions and management.
- Such discussions to be ongoing in flexible plan with clear commitments.
For the past two decades the behaviour and control of multi-nationals have been centres of controversy. Business literature has contained advice on how such companies might cope with interference from powerful, aggressive and/or corrupt governments. It has also contained defences of MNCs against charges - by politicians, church and other community leaders - of exploitation and anti-social behaviour. Clearly there is an inherent possibility of conflict between governments serving their concept of the national interest and large businesses responsible to shareholders in one or more foreign country(ies). Generally speaking, MNCs have had a bad press and this has fostered the arguments for controls for which Planning Agreements might provide a framework.

To some extent the arguments against MNCs are arguments against the unfettered exercise of power by any private business writ large. We shall consider Galbraith's critique of big business, Fine's ideas, from the left, as to how MNCs might be corralled into the Alternative Economic Strategy and, from another viewpoint, studies from the World Council of Churches. It is, however, one thing to demonstrate some MNC behaviour diminishes welfare; it is another to demonstrate that national controls exercised through some form of Planning Agreement is the answer. Rather it may be that national controls tend to aggravate the situation and that international enforçable agreements are the only way forward.
Galbraith in *The Affluent Society* (1958) and *The New Industrial State* (1967) complained that Big Business so manipulates society through advertising and the exploitation of scale economies that achievement of the goals of possessive individualism inevitably take precedence over community needs (private affluence and public squalor). In *Economics and the Public Purpose* (1974), written before Labour's Programme 1973 but referred to in *Holland* (1975), Galbraith sets what Holland was to call the meso-economy and what he calls the Planning System into an analytical framework of the economic system as a whole; he is better on diagnosis than cure.

The hub of the Planning System is the "technostructure" comprising the web of managerial organisation in very large businesses which is no longer effectively responsible to shareholders, customers or the community at large. It aims not at profit maximisation or even managerial income maximisation but steady corporate growth as a means to power, security and status (of the technostructure). Its strategy is to insulate the corporation as far as possible from vicissitudes of the economic/social/political environment. Part of that environment is the Market System in which smaller businesses operate. They, lacking the power of the Planning system, are obliged to compete in the orthodox economic manner. Keynesian analysis and, more important, Keynesian short-term policy prescriptions, according to Galbraith, assume the Market System to be universal, ignoring the Planning System. Medium term Indicative Planning, as a final flowering of Keynesianism, falls at the same hurdle.
Perhaps the primary impetus to what Galbraith typifies as Planning behaviour is the long gestation period of capital projects in modern large-scale industry. Decisions have to be made on the basis of forecasts and assumptions about economic developments and social/political conditions far into the future. This provides an interest in ensuring if at all possible that economic, social and political developments are in accordance with plan. On the economic side, for example, attempts will be made to control costs and prices and hence competition from the Market System. This, via monopoly and merger policy, leads into political involvement which may be extended if the corporation fears change in the political pattern or structure. Corporate influence may also be brought to bear against potentially hostile social change.

Eventually, Galbraith argues, the technostructure acquires a life of its own, not under the control of any individual or small group, ie Board, and protects the autonomy of its own decision-making by exercising its power over consumers, suppliers and government. With growth rather than profit the goal, labour relations conflict is avoided by regular and substantial pay awards. Prices are then adjusted to reflect costs and can be passed on to consumers, manipulated by advertising into believing there is no adequate, cheaper alternative provided in the Market System. Thus there is a community of interest between the technostructure and the rest of the work force. This has inflationary and de-stabilising effects which Keynesian demand management and indicative planning are powerless to correct.
If the Planning System accounts for a substantial proportion of the economy and if labour relations are as accommodative as described, then there are clear inflationary consequences that cannot be cured by deflation. Indeed, deflation or international trade shocks with similar effect, such as the 1973 oil price shock or the effect of an enhanced price for the rising output of North Sea oil in 1980/81 on sterling, will encounter price and wage inflexibility on the part of Planning System businesses. They will relieve pressure on themselves by squeezing Market System businesses and cutting their stocks before cutting their own production. Thus the effects of deflation etc on the Market System will be aggravated with the possibility of what might have been a pause in overall economic growth being turned into a full-scale recession.

Galbraith makes the important point that multi-nationals are different in degree rather than in kind. They "invade the sovereignty of the state" not in virtue of their foreignness but through the nature of the Planning System and as international businesses they are more visible. In similar vein, he argues that public ownership is no answer since the same technocratic tendencies are as appropriate to public as private enterprises: the power of management is much greater than that which comes from ownership. This is a far-reaching and pessimistic line of argument since any system of public control could be subject to some bureaucratic tendencies.
Galbraith gropes for answers in a multitude of pragmatic controls some but not all of which are of the sort that Holland would place in a Planning Agreement, including permanent wage and price curbs for the largest companies, minimum wage levels, encouragement of trade unions in Third World countries, tighter international cooperation on transfer payments within multi-nationals, environmental controls, energy conservation and more government involvement in technological development and investment. But he does not suggest any such framework as Planning Agreements and the proposed controls are ad hoc, smack of shutting the stable door after the horse has bolted, are not based on any clear objectives for economic policy and might well have as their chief effect the diversion of resources in large corporations to devising ways round the controls. Furthermore, he does not offer a solution for the problem of the potential bureaucratisation of the control system. By contrast, a Planning Agreement system would be the servant of policy objectives clearly understood and accepted by management and union signatories; subject to compliance with the terms of the agreement, businesses would retain freedom of manoeuvre while public scrutiny of at least those parts of the plan publication of which would not jeopardise commercial viability would militate against bureaucratisation.

His concept of the technostructure is a powerful tool for explaining behaviour of many corporations, though there are many others such as ITC under Geneen and Weinstock's GEC where an entrepreneurial style persists.
But it is necessary to have a fuller understanding of how MNCs exercise power to see where their policies may conflict with and how they may be made to conform with national economic and social policies. Mainstream economic analysis, eg Dunning (1979), emphasises the independent interplay of many and varied factors in an "eclectic theory of international production". Dunning groups these under three heads:

1. Ownership specific advantages of enterprises of one nationality over those of another;
2. Internalisation incentive advantages in cases of market failure;
3. Location specific variables favouring either home or host countries.

These advantages MNCs will exploit include political/legal/social factors, eg patent law, government protection or assistance for particular industries, tax structures, but in principal these are no different from more economic factors such as infrastructure, technology and factor endowments. In pursuit of these advantages, MNCs grow in size and market power. They may also become more internationalised or "nationless" (Vernon, 1979, cited in Fine, 1982). This analysis is in marked contrast to that which sees MNCs as a powerful type or arm of imperialism. Indeed, the massive expansion of US MNCs in the first two decades after the second world war are seen by Vernon as an international extension of the product cycle: firms built up by developing a product in the huge US domestic market turn to overseas markets when their own begins to flatten out and
income levels rise overseas. We may conclude that it is the pursuit of corporate rather than US national interest that has prompted world-wide expansion of IBM and Coca Cola.

Fine (1982) seems to accept this but nevertheless we may sympathise with him in believing there to be more interrelationships between factors than does Dunning and in seeking more general theories of MNC operation than Vernon's product cycle. He contrasts the development of US and British MNCs over a century with that of West German and Japanese over a couple of decades. Furthermore, while German MNCs concentrate on investment in high technology production to further their European export drive, Japanese seek low-wage production in the newly industrialised countries (NICs) of the Far East. US and British MNCs have both exported technology and sought lower costs overseas, but in recent years US high technology investment has been directed more towards continental Europe than, as hitherto, the UK. At the same time, British MNCs, faced with a relatively slow-growing domestic economy have become more and more fully internationalised whether they have traditionally concentrated on low-technology operations in the Commonwealth or more advanced industries elsewhere. Thus, as Fine argues, MNC operations are not at present geared to promote economic growth in the UK but, bearing in mind their predominant influence in many industries, rather the contrary. If they are to do so, some form of intervention is necessary.

Since such intervention will be seen by MNCs as against their world-wide interests it will have to be compulsory. Fine argues that both
nationalisation and Planning Agreements are necessary and feasible but that neither is a panacea. He accepts, as we do, Galbraith's point that ownership need make little difference to managerial and trade union behaviour. But he argues that CPAs without nationalisation may be ineffective so need at least the backing of a nationalisation sanction to induce management commitment to make them work as initially intended.

Thus far we have concentrated on MNC activity in a developed economy, and especially in the UK. Much of the public debate, however, has centered on their operations in the Third World. From the point of view of an economically weak third world nation fearing exploitation by an industrial corporation whose total sales greatly exceed national income and from the point of view of an MNC fearing capricious intervention and perhaps expropriation by a dictatorship or unfair competition from less ethical/socially conscious rivals, internationally agreed and enforceable regulation of MNCs is desirable. The UN and the OECD have made some progress in this, but there is a long way to go. Planning Agreements in the UK could therefore have a role to play in the government's Aid and related programmes, by requiring MNCs operating in the UK to conform with official policy towards the Third World.

Trenchant criticism of MNCs has come from The World Council of Churches.

Specific WCC interest began at the Fifth General Assembly* held at Nairobi

* General Assemblies have been held at 6 to 8 year intervals since 1948
in 1975. At that Assembly there was much attention to claims that the poor and weak (in the Third World) were oppressed by the rich and powerful (in the First World). MNCs were accused of playing an important role in this and the Commission on the Churches Participation in Development (CCPD) was made responsible for the co-ordination of a study programme. Numerous papers of varying quality have been produced. The general attitude towards MNCs is hostile; indeed it is suggested that struggle between MNCs and the Churches is inevitable until such time as a new economic order with a new set of world values is established. As Wogaman (1986) observes initial declarations of implacable hostility are not the best way of promoting constructive dialogue.

The theoretical basis of the study is the belief that human *stewardship* of the earth's resources should be exercised so as to promote the establishment of a *Just, Participatory and Sustainable Society* (JPSS: a catchphrase developed by the WCC in the seventies). The concept of stewardship is that man does not have absolute ownership rights over the earth's resources, but must act as a steward in a responsible manner. That responsibility is to God but is exercised through relationships between human beings, born and yet-unborn. These relationships ought to be expressions of the solidarity of the human race: individuals have rights and responsibilities but society is more than the sum of individuals and society too has rights and responsibilities.
Love of neighbour is the basic ideal relationship between individuals and family groups. Its complement in social systems is justice which is here more than a juridical or legal term. In the Bible, justice means, in particular, fair treatment of the poor and oppressed. The Bible to Christians* is the record of God's revelation of himself through human history. Repeatedly and consistently, God has revealed himself to be "on the side of" the poor and underprivileged. The biblical meaning of "poor", however, is not unambiguous. In some places it clearly means economically or materially poor - physically hungry, widows and orphans, refugees. In others in means the devout - humble and spiritually hungry. Clearly fairness means different things for the two types of poor. Fairness for the devout means such things as inner peace, respect and reward in heaven.

Fairness for the materially poor calls for food, clothing, shelter to be provided by individuals or society to those who do not have them. But it goes beyond a social security safety net the provision of which is in the interests of the richer members of society so as to minimise the risk of social disorder. There is an unrealised Biblical ideal for the status of the poor to be raised towards equality with or even superiority to the rich. In material terms this would require political and institutional change - a point made explicitly in the Old Testament, implicitly in the New. Its application to the modern world is seen by some theologians to require pressure for reform of social and economic institutions and/or the

* Likewise the Old Testament to Jews and Muslims
establishment of countervailing powers in the interests of the poor, both nationally and internationally. (As noted in Chapter I, this emphasis on justice for the poor is echoed by Rawls', 1972, principle of justice that the test of any proposed change in social or economic structure is whether it benefits the poorest group in society, subject only to the primary principle that basic liberties be preserved. In considering liberties and benefits, however, Rawls' emphases are much more individualistic.) Whether or not MNC operations in pursuit of their objectives are just in this sense and whether or not they can be made more just through PAs must be considered.

The second element of the JPSS, participation, is wider in its application and less specific. The Christian stress on the importance of the individual and of the individual in society implies that economic development should be human-centred development (also a keynote of the new alternative economics of Robertson etc considered in Chapter 6). In turn, this implies that people should be involved in decisions affecting them, that power should be decentralised as far as possible. By contrast, MNCs seem inherently centralising bodies with hierarchical structures of power and decision-making resulting from their capital-intensive nature. The result is an increasing sense of powerlessness and injustice on the part of the poor. At the very least, it is argued, plans should require MNCs, and other giant enterprises, to be more socially accountable.

Social accountability is also a key requirement of the third element, a
sustainable society. Stewardship involves balancing the use of resources for current economic growth against such over-depletion of natural resources that the quality of life of future generations is impaired. MNCs are accused of giving too little thought and action to such perspectives through placing too much emphasis on relatively short run financial objectives. To a considerable extent this accusation ignores the effect of market forces in conserving scarce and potentially depleted resources. But, as discussed in Chapter VI, economists such as Herman Daly argue that the preferences of future generations cannot be adequately reflected in today's market prices and, more important, there are biophysical limits to growth. The world economy is no longer infinitesimal in relation to the ecosystem. Like an organism, the economy sucks in low entropy matter-energy and expels high entropy matter-energy back into the environment. Compound rates of growth of the organism cannot be sustained indefinitely just as a perpetual motion machine contradicts the second law of thermodynamics. This is not so much a case for replacing market forces by arbitrary controls but rather the use of such devices as taxation to supplement market forces with a social dimension.

The already noted hostility of the WCC critics is grounded in preconceptions about the aims and bases of MNCs. It is believed they are governed by the absolute primacy of the profit motive. This is hardly borne out by the evidence in support of managerial theories of corporate behaviour, but it may be a kind of shorthand for a primacy of economic aims and methods of analysis in business which may then spillover into the
wider sphere. For example, Francisco Cateo (1982), a Brazilian theologian and financial consultant, concludes that MNCs change the meaning of life through "economics imperialism" (invasion and domination of other areas of culture by economic analysis and assumptions) so that economic growth and profit are given overriding importance. This ethos, implying that man is first and foremost a consumer whose end is to enable profit to be made, shapes social aims and the type of society itself. He goes on to argue that the primacy accorded to profit-making necessitates oppressive political structures lest social disorder should disturb profit.

Such assertions about MNCs aims and bases must be supported by evidence of their behaviour. WCC critics present two sorts of evidence supporting the charges, first that MNCs are in direct conflict with the vision of the JPSS and, second, that they do not do what they could to promote the JPSS.

The first comprises detailed examples of MNC impact on the quality of life and work. There are allegations of malpractices in employment such as restriction of trade union rights, dehumanisation and deskilling, exploitation of cheap labour (often children), avoiding commitments to long-term benefits and lack of concern for health and safety measures at the workplace and in the community generally. Outside the workplace, MNC influence often extends to provision of housing compounds or "bonded villages" with, it is said, scant regard for the quality of life. It is alleged that all this arises from the search by MNCs for locations with the cheapest labour and freedom from regulation, often in oppressive regimes.
that discourage labour militancy. It is added that such developments have adverse effects on labour relations and conditions of work in the First World as well. While it may be an objective of the Government to oblige an MNC to make a CPA in order to restrain it from certain labour relations practices etc, such objectives would be extremely difficult to place effectively in a CPA. And then, the additional limitation imposed on the MNC in the First World through the CPA is likely to induce it to redouble its efforts to find havens of cheap labour in the Third World.

Undoubtedly successful and large-scale MNC development can cause extensive social as well as economic change in third world countries. A question is not simply whether that change is for the best but for the better. In the Third World, the poorest are among those, frequently the majority, who survive (or do not) through subsistence agriculture outside the cash economy. Rob Whyte (1983), sometime with the World Bank and MNCs, estimates from data in the World Bank's 1981 "World Development Report, less than 20% of the population in most third world countries are in a position to be either customers or employees of MNCs - and they, urban dwellers, are not the (relatively) poor. Accordingly the charge of injustice to the poor does not primarily relate to MNC dealings with either their employees or their customers; we must turn to the second charge, whether the MNC fail to be an instrument of relief and justice to the poor with whom they have little direct dealing and whether intervention through CPAs can help towards a more general restructuring of the economic system towards greater social justice.
This has much to do with the MNC role in the diffusion of capital, technology and the general benefits of industrialisation. It is argued that the benefits to the Third World are much less than they could be, perhaps largely because of a legacy of imperial attitudes and assumptions. The colonial experience lives on in that third world countries remain as inferior partners - contributing cheap labour and materials (Tina Wallace, 1983). The top-down, hierarchical structures of MNCs ensure that research and development remains in the parent country and that profits are remitted there. Furthermore, there is seen to be evidence of an increasing ascendancy of a "Military Industrial Complex" over the traditional oil, food, etc MNCs in a number of countries which leads to political involvement, including the support of oppressive regimes and the de-stabilisation of unfavoured governments.

It is interesting that management and business journals present almost a mirror image of the WCC picture of the MNC/Third World relationship. Various articles show the MNCs on the defensive and proffer advice on how damaging effects of host government intervention may be minimised or offset. It is widely recognised that for MNCs to succeed in developing countries they must have social objectives; Whitt (1983), for example, shows how to plan a social responsibility budget. There is a tension between the tendency for MNC planning to become more comprehensive, on a global basis, and pressure from host governments for greater decentralisation and responsiveness to local needs and national plans. As a result, decentralisation increases beyond the recognised advantage of
making good use of local management skills and know how (Brandt et al., 1980). Kapoor (1974) argues that in any case MNCs in negotiations and investment appraisal in less developed countries should specifically plan for a shift in power from company to host government.

The situation from the point of MNCs is summed up by Doz (1980): host governments restrict the freedom of MNCs in deploying economic resources and interfere with "the autonomous process of MNC strategy formation". Host government interest includes product/market choice, use of technology, level of employment and national trade balance (all areas of concern to WCC critics). Doz argues that MNCs, rather than simply complain or alternatively withdraw investment, should develop flexible management systems and bargain hard. "The key bargaining strength of an MNC is its ability to provide efficiently a technological package which the host country could not easily obtain otherwise."

The impression thus created is that indeed MNCs do face and respond to the exercise of countervailing power by national governments. That is no guarantee, however, that such countervailing power is exercised to promote anything like a JPSS. Indeed, authoritarian governments may well pursue nationalistic policies more inimical to the vision of the JPSS than would MNCs left to their own devices. Apart then from the need for development of political democracy as well as economic development, this may point towards the need for greater pressure - governmental and independent - on MNCs in their original or HQ country with regard to their world-wide operations.
Much of the WCC criticism of MNCs is unbalanced and lacking appreciation of the strength of market forces to limit MNC powers (discussed in Chapter VII). Preston (1983), a sympathetic commentator, suggests at least part of the reason is that the cutting edge has been blunted by concentration of WCC resources on alternative projects in the nuclear energy debate and by division between First World personnel preoccupied with "limits to growth" questions and Third World personnel who suspect such questions are devices to keep the Third World in its place. Nevertheless, the Third World perspective predominates and challenges governments and international bodies as well as MNCs themselves to develop effective policies to satisfy this call for "justice". Public awareness in the First World and sympathy for such calls has been roused in recent years by Bob Geldof’s "Band Aid" famine relief fund raising and by developments in South Africa. It is in the latter that pressure group attention has focussed on the operations of MNCs.

We have discussed above the possible role of CPAs in harnessing MNCs to the requirements of national economic policy. In this international context, where the called for action by MNCs in the Third World may not be in the economic interest of First World nations, international cooperation is helpful. There is some regard to these issues in Codes of Conduct drawn up by the EEC and the OECD. Codes, however, need not be accepted by MNCs and even if they are need not be observed - unless there are sanctions that may be imposed in cases of failure to comply. Except in the case of
absolute embargos, eg on certain categories of trade with South Africa, legal sanctions do not apply. It may be, however, that specific action or withdrawal of specified practices by an MNC operating in Third World countries could be part of a CPA between the UK government and an MNC based in Britain.
4. Indicative Planning

Exploration of the concept of the meso-economy has shown that modern very large scale enterprises may require the construction of an analytical bridge between macroeconomic policy (in regard to planning for growth and realisation of social and/or political objectives) and conventional industrial policy (in regard to such matters as monopoly and competition, regional policy and international trade). Examination of the meso-economy as it exists and functions has indicated a *prima facie* case for government or international intervention which could be exercised through planning agreements.

This is, however, but a special case, albeit potentially an important one, of the role of the enterprise in national planning and more specifically indicative planning. There are a number of different theories of indicative planning specifying different planning objectives and ways in which the plans work. They have varying roles for individual enterprises and hence for company planning agreements. In practice, although governments have usually acknowledged some theoretical basis for their planning they have rarely based their plans on just one theory; furthermore, presentational considerations have frequently coloured (or confused) appreciation of the underlying theory. Nevertheless it is necessary to distinguish different theories in drawing lessons from the past for the future; there may have been theoretical as well as political
and institutional weaknesses in the UK plans of the sixties.

Three theoretical bases for indicative planning may be distinguished. The first is planning to promote general equilibrium; Meade is the principal proponent and the French plans, particularly the earlier ones, rested heavily upon it. The aim of the second, by Harrod, is to boost demand expectations which featured prominently in the UK plans. The third, developed by Estrin and Holmes, is that the centralised provision of economic information in an indicative plan could improve the operating efficiency of markets. Given that the essence of indicative planning, as distinct from imperative planning in a command economy, is that a free market system prevails, the role of the individual enterprise is crucial. The enterprise or firm is the chief economic agent that it is hoped will act on the "indications" provided. The following summaries draw on the first two chapters of Estrin and Holmes (1983).

The general equilibrium approach was developed by Meade (1970). In a free, unplanned economy, unless there are fully adequate forward markets in all sectors and for all products, economic agents' choices are unlikely to mesh. An indicative plan meets this deficiency by providing a list of equilibrium prices, ideally to cover all possible eventualities. Provided that agents then base their choices on the plan, allocative efficiency will be enhanced. Prior to Meade, Massé (1965), the first Director General of the French Planning Commission, had placed coherence as the first requisite of the French Plan. There were, he noted, features of the Plan that were
not purely indicative, such as financial stimulants and the driving force of public investment, just as there were regional and social policy aims as well as the objective of increased growth. But it was the (indicative) coherence that would increase private sector confidence (to increase the rate of expansion). It is interesting that Masse cited the socialist planning theorist, Lange, in stressing the role of national planning in the allocation of resources between consumption (now) and investment (for growth and future consumption).

The problem with this general equilibrium approach in practice is that it is not feasible to cover all eventualities and that the planners may get it wrong. The consequence would be that firms who initially follow the indicators would suffer loss and so lose faith in subsequent plans. Estrin and Holmes believe that it was serious errors in the planners’ predictions in the more complex and uncertain sixties and seventies, rather than serious errors in business behaviour, that sapped the French Plans of credibility. Whatever may be required in practice in other aspects of a plan, in the purely indicative, coherence-creating, aspects of an equilibrium-promoting plan there is no need for CPAs.

Harrod (1973) concentrated on the shortfall of actual economic growth from the warranted (or what has now become known as the natural) rate of growth. Indicative plans could help close this gap by raising business expectations about future demand growth. These would prompt higher investment and hence output. The key element in the plan would therefore be the overall
rate of GDP growth (as in the UK plans of the sixties). But it would need to be disaggregated if, as would be necessary, the planners expectations were to be substituted for business expectations in individual sectors. How could that substitution be induced? The plan must be seen as credible and reducing the risks of more rapid expansion. This might be achieved through extensive consultations between the planners and business (hence the NEDC) in an iterative process towards an agreed growth plan. There was an element of demand expectation enhancement, involving consultation, in the earlier French Plans and indeed this was more appropriate to the then pessimistic mood of French business than it was to British business in the sixties. The danger of a plan of this model is that failure through over-optimism could wreck the whole system, yet the whole point is to be more optimistic than business already is. An obviously over-optimistic plan would lack credibility and so not work. But it may be blown off-course through external shocks (world recession, war, oil supplies/prices) or through concentration on macro elements to the exclusion of structural imbalances at the micro level (skill or materials shortages) and conflicts of interest at the meso economic level. Undoubtedly planning in Britain lost credibility as a result of the early abandonment of both the NEDC 1963 Plan and the 1965 National Plan. But the reasons were more complex than disillusionment with demand expectations. As discussed below, there were weaknesses in the way in which business was involved which might have been remedied through a CPA system.
Estrin and Holmes' (1983) in their own model of indicative planning argue against the Austrians that some macroeconomic information is of value to the firm, against Holland that lack of detail in firms' plans limits the degree of information that can be used and that state provision of the information is best. Although they see no useful role for Holland-style CPAs, their model is considered here for completeness and also because their grounds for dismissing CPAs are open to challenge.

Austrians (see the discussion of Hayek's views in the next chapter) argue that the individual firm needs only a very limited amount of information on prices of supplies and products in its own market to plan adequately and that because it knows its own market best this information cannot be supplied from elsewhere. It has, however, become evident in the increasingly uncertain seventies and eighties that firms are sensitive to changes in macroeconomic conditions and that they recognise that sensitivity. Accordingly, more firms are making use of externally supplied economic forecasts.

The UK indicative plans in the sixties were an incentive to the development of corporate planning in very large industrial enterprises. In the seventies and eighties, however, they have reduced their employment of business economists in forecasting and cut resources devoted to corporate planning (Anderson (1987)) to concentrate more on the implications of alternative strategic scenarios. This does not prove Estrin and Holmes point about the limits to planning and information requirements since at
the same time as very large enterprises have been cutting back, there has been an increase in planning by large and medium sized industrial firms and by retail and other service businesses, some of which did very little formal planning until about a decade ago when they began to acknowledge their vulnerability to changes in the macro environment - either real or nominal. This trend has been facilitated by the availability of cheap personal computers and an increased supply of commercially produced economic forecasts.

The much steadier rate of GDP growth from 1982 than hitherto has not reduced the demand for economic forecasts, because uncertainties related to macro factors and bearing on the individual firm have not been reduced. Indeed, interest and exchange rates have become more volatile, consumer behaviour more varied and competitive pressures more intense. Thus the demand for commercial economic forecasts and more detailed ones - supplied either on a multi-client basis or tailor made for the individual firm - has increased. This does not bear out Estrin and Holmes' claim that firms' planning is insufficiently detailed for CPAs.

If there are to be CPAs, then the government must have economic forecasts as a basis for discussion with the firms with whom they are to be agreed. The firms themselves, on the other hand are likely to want an alternative view or views to be discussed. Since CPAs will vary in their timing, scope and detail, it would not seem unreasonable for individual plans to be based on individual compromise forecasts - within limits. The less
ambitious role for planning seen by Estrin and Holmes envisages the pooling of strategic information by firms, particularly in highly concentrated sectors, with sanctions against non-compliance or the provision of false information. Such a role is clearly an important ingredient of a CPA system.

Such a direct involvement of firms in an indicative planning system would be a marked improvement on the way in which business was involved in the plans of the sixties. The NEDC fairly satisfactorily involved business (and the TUC) with the government in consideration of macro-economic and general commercial/trade issues. But below that level, micro-economic, industrial issues were discussed first with trade associations and subsequently in the industrial or sector EDCs ("little neddies") which tended to be dominated by trade association views. Trade associations are essentially defensive organisations and the proposals to promote growth emanating from the EDCs generally had a protectionist flavour. It would have been far better for the government to rely on direct dealings with the meso-economy and large companies for relevant information, positive ideas and accurate feedback for ongoing indicative planning.
5. Summary of the Case for Company Planning Agreements

Planning agreements were originally seen by Holland as a vital ingredient of Indicative Planning lacking in the national plans of the sixties. They would provide a more effective link between government and industry for two-way exchange of information than trade associations and industry Economic Development Councils, because it is the company that is the decision-making unit in a market economy. Even if economic efficiency is the only goal of indicative planning, CPAs may be an essential means of supplying and pooling the necessary information—on prices and quantities and future investment. A formal agreement between government and large companies, with commitments on both sides and sanctions against non-compliance by companies, provided that the Government has fulfilled its side of the bargain, may be necessary to ensure the supply of accurate information.

Holland finds the case for CPAs made much more urgent by the emergence of the meso-economy—companies, usually multi-national, that are of sufficient size to be able to frustrate the government's plans. Galbraith argues that such companies left to their own devices serve the interests of the technostructure rather than either society at large or their shareholders; they may also become nationless with a life of their own. A CPA backed by the threat of nationalisation, could require such companies to give, for example, a higher priority to investment and output growth within the country rather than abroad, after due examination of the relevant economics of the company's plans. Yet, subject to compliance with
the agreement, companies would retain freedom of manoeuvre.

His concept of a CPA system, however, is designed to serve other goals than simply that of economic efficiency and is more interventionist than the purely indicative. It is one of the means towards the transformation of society towards socialism. Neither is it dependent on the existence of a formal indicative plan. Thus in return for government support - for planning applications or financial assistance - a company may be obliged to meet specified social, political or environmental objectives. These could be national or, in the case of multi-national companies, international requirements for operations in third world countries.

Examination of trends in the seventies and eighties shows that industrial concentration, taken as an indicator of the rise of the meso-economy, has not grown at the rate forecast by Holland and that the most successful industries have been the less concentrated. Even so, CPAs in industries that have declined, such as the motor industry, could be deployed not simply to ensure their survival but to coordinate their activities with broader economic/political/social aims, such as those of a comprehensive transport policy.

Manufacturing industry accounts for only a quarter of the UK economy. And there has been increase in concentration in services, notably retailing. To some extent this balances earlier concentration in industry supplying shops and equalises bargaining power. But recent retail trends away from
city centres to out-of-town centres designed for shoppers with cars point to scope for local government CPAs.
Arguments against the introduction of a company planning agreement system can be categorised into three types. The first starts from a position of broad sympathy with the aims and objectives but doubts the practicability of CPAs. The second casts doubt on the macro economic theory underlying the concept of indicative planning as a means of promoting faster economic growth. The third questions more fundamentally, on economic and political/social grounds, whether planning in general is feasible or at the very least at all helpful in a free society.

1. Practicability

The doubts of Estrin and Holmes about CPAs - whether firms are sufficiently sophisticated in their planning and detailed in their plans for the system to get off the ground - have been discussed in the previous chapter and evidence for believing they are mistaken is detailed in Chapter VII. Hare (1985), after expressing some doubts as to whether CPAs are necessary to control multi-nationals and in any case whether Holland has exaggerated the costs to the economy and society of the mesoeconomy and underestimated the benefits, suggests experience in the seventies points to several difficulties.

One is the lack of any clear legal basis for the agreements so that, in case of non-compliance by the company, government has no sanction other
than the withdrawal of financial or other assistance much of which may already have been exhausted. This could be a serious problem in a compulsory CPA system if firms entered into an agreement unwillingly, without any real commitment and ready to exploit any possible loophole or escape route. In fact it was largely because of business hostility to the idea that the 1974 Labour Government abandoned their manifesto intention to introduce a compulsory system with CPAs negotiated on a tripartite basis between board, government and labour force and substituted, in the 1975 Industry Act, a voluntary system negotiated between board and government alone. Hare, however, sees compulsory CPAs as part of an authoritarian socialist programme, radically altering the balance between the interests of private enterprise and the working class. He concludes that such a confrontational policy is less likely to succeed in bringing about economic and social change towards socialism than a more gradualist programme based on consent and including voluntary CPAs. Clearly one entered into voluntarily is more likely to be voluntarily adhered to. Equally clearly it is less likely to have teeth, requiring business action that would not otherwise take place. In place of teeth would be the carrot of financial assistance or special tax treatment denied to non-agreement companies.

Walkland in Gamble and Walkland (1984), while sympathetic to the idea of planning and seeing the National Enterprise Board as potentially a "valuable interventionist agency" (page 133), scorns Holland's idealistic programme as "unbelievable" (same page). This is because it ignored the political reality that any plans and new institutions introduced by a
Labour Government with a strongly left-wing ideological stance could and probably would be reversed by the next Conservative one and that industry, recognising this, would stall and withhold cooperation in CPAs. Furthermore, industry's antipathy would be furthered by the public ownership proposals and threats in the programme. Although this is an argument against the society-transforming objectives of Labour's programme and compulsory CPAs, this whole episode of interventionist planning may be seen as another failure of the adversarial system of British Government. There is no encouragement for firms to make voluntary CPAs if the whole system is likely to be abandoned after the next General Election.

By contrast, Fine (1982) sees CPAs on their own as inadequate to deal with multi-nationals and insufficiently socialist. The interest of multi-nationals is in their global achievements; particularly in the case of UK based ones, conflict of interest between them and a socialist government planning to expand British industry is inevitable. This cannot be bridged by CPAs alone since international competitive pressures may leave the company with no option but to break the agreement, even if, which would often not be the case, it was entered into voluntarily. Therefore UK subsidiaries of MNCs and UK based ones must be nationalised. Fine rejects the proposals of Glynn and Harrison (1980) for wholesale nationalisation with no place at all for CPAs. But he sees them as very much second best to nationalisation in circumstances where the employees of an MNC themselves cannot be persuaded of the benefits of nationalisation and for companies which are lower in the priority timetable for nationalisation. To
have any chance of success they must be compulsory, with the sanction of nationalisation for non-compliance. Thus Fine sees the same weaknesses as Hare, but seeks a solution in the opposite direction and is even more exposed to Walkland’s charge of ignoring political realities than Holland himself.
2. Disputed Macro Economic Theory

It is often assumed that indicative planning and the role of CPAs in it is part and parcel of a "Keynesian" policy prescription for an underperforming economy - such as the UK in the sixties. At that time, dissatisfaction with the actual practice of demand management - too much expansion too late when there was slack in the economy leading to overshooting at the top of the cycle and then too much deflation too late leading to below capacity output levels and, more crucially, discouragement of investment plans that would raise future capacity. The Indicative Plan would display the Government's commitment to expansion in the medium, not just the short term. The CPAs would ensure that this commitment was understood and related to the actual decision-making unit in the private (and nationalised) business sectors, and that business plans would be based on the Plan.

From this viewpoint it is taken for granted that there is the strong possibility of output persistently running below capacity and that the government can close that gap by taking steps to raise aggregate demand. The "monetarist counter revolution" denied this possibility, except in the most exceptional circumstances, and denied that governments have that power over aggregate demand in, what counts, real terms. First, it is argued, there is a "natural" rate of output growth with a "natural" (ie full) level of employment. This can only be raised by such things as improvements in the efficiency of markets and discovery and exploitation of new natural
resources. If output is disturbed from its natural path, it will quickly revert to it unless prevented by government macroeconomic mismanagement. Such mismanagement would include divergence from steady growth of money supply caused by attempts to increase real aggregate demand.

Such attempts do increase aggregate demand in money or nominal terms. Some, eg Milton Friedman, allow for the possibility that, given an initial disequilibrium state of surplus capacity, they could also prompt some increase in real demand and output, but believe this would only be temporary as in the medium term the extra nominal demand would be entirely absorbed in higher prices. Others, believing economic agents' behaviour to be guided by rational expectations, do not allow for even a short-term increase in real demand and output since extra money supply is almost instantaneously absorbed in higher inflationary expectations. Evidence from the experience of monetarist policies in the UK since 1979 is not clear-cut and will not be examined in any detail here. It is noted, however, that the severity of the 1980-1981 recession was more than the briefest departure from the natural rate of growth, suggesting not so much that economic agents did not behave rationally as that the indications about monetary policy put out by the government were neither clear nor consistent. Subsequently, however, despite failure to discover and promote a reliable monetary variable, the Government's Medium Term Financial Strategy has achieved a gradual reduction in the Public Sector Borrowing Requirement, accompanied by remarkably steady and persistent rates of growth of both output and inflation. But this does not wholly support the
rational expectations school since unemployment and real wages have remained stubbornly above what could reasonably be regarded as market clearing, natural levels. Since this does leave open the possibility that an exogenous increment to aggregate demand, whatever it might do to inflation, might also raise real output and cut unemployment in the medium term, the monetarist case is not proven.

Nevertheless, the demand-increasing, confidence-boosting role of CPAs has taken a knock in the monetarist counter revolution. They are left with a potential role in Meade-type market-efficiency-improving indicative plans. In a monetarist regime, indicative plans can cover little more than money supply, nominal GNP, price level and wage rate indications. CPAs could have a role in disseminating such information and enabling training and retraining initiatives and other measures to increase the responsiveness and flexibility of markets. And this residual role would be subject to their passing the test of practicability.
3. Is Planning Possible?

The clear answer is that planning in the sense of political direction or guidance of economic agents is possible - and has been practiced extensively in Nazi Germany, Fascist Italy, in the USSR, China and Eastern Europe, in many Third World Countries and to a lesser extent in most Western European Countries. The question is really whether such planning is consistent with a "free" society and free market institutions and/or whether it is grossly inefficient in meeting human needs.

Hayek (1939 and 1944, etc), following Mises (1920), argues the traditional "Austrian" position that the efficiency of a free economy depends on a myriad of producers being free to respond to comparatively few indicators or "signals", chiefly prices of materials, services and labour and of competitors' products. These signals are forever changing; so too may be consumer demand or the producer's perception of it. Thus the response of a producer if he is to survive and prosper through trial and error, ie be efficient, must be flexible, ever changing. No government agency, he argues, could possibly plan such a system. Even if the vast number of individual prices could be monitored, they could not be changed with sufficient sensitivity to ever-changing demand and supply conditions.

This argument was countered long ago by Lerner (1934) and Lange and Taylor (1936) who envisaged a socialist government requiring the (politically appointed) managers of publicly owned enterprises to fix prices equal to
marginal costs and to operate as if in a perfectly competitive situation. Twenty years experience in Britain of marginal cost pricing rules for nationalized industries does not suggest that this theory translates easily into practice. Admittedly, nationalized industry operations have been complicated by changes of government and requirements to meet financial objectives that can be and usually are at variance with marginal cost pricing. But there have also been major problems, both conceptual and practical, in marginal cost pricing: whether short-run or long-run and how they are to be measured - especially in industries with substantial common "system" costs. Solutions to these problems have been proposed, e.g. Turvey (1972) and Rees (1983) but they have failed to find general acceptance, not least in the Treasury. This, however, is somewhat beside the point.

The point is that planning with the aid of company planning agreements is designed to modify market solutions - in the interests of either economic efficiency or social benefits, or both. Hayek's argument is that obliging producers to take macro economic and political/social factors into account through a planning system is a diversion from their primary duty to concentrate on watching the "dials" that monitor the comparatively few micro economic details that really count. He does not address the problem of meso economic businesses whose international objectives may conflict with the government's national economic objectives. Taylor's socialist alternative is equally micro economic. Such atomistic competition may be ideal in promoting economic efficiency in meeting consumer wants and it may
well be that the mass of small firms do operate most efficiently through watching a few dials. Nevertheless, the fact of the matter is that large and giant companies account for major chunks of the economy, do need to respond to macro as well as micro economic signals and do plan in considerable detail. Hayek makes out a good case for minimal "planning" interference with the operations of small and medium sized businesses. But the meso economy run by Galbraith's "technostructure" is quite another issue. No longer pursuing the goal of maximising profits, it has the power to control and subdue market forces.

Arch proponents of the free market such as Friedman (1962) and Stigler (1982) consider competition among the giants as classical competition writ large. In the interests of the consumer in a free society it should be untrammelled by restrictions or guidelines laid down by the state since they are more likely to end up by protecting the interests of the giants (through regulatory capture) than those of smaller firms and the consumer. Left alone, competition will enable efficient small firms to challenge successfully the giants as they become slack or arthritic. Friedman in particular links his advocacy of the free market with an ideological commitment to a free society unblemished by any socialist provision. This position is too extreme, based on a wholly individualistic view of human nature. Accepting that man has a corporate as well as an individual nature, it follows that society has a right and its representatives a duty to modify the behaviour of individuals and businesses in the interests not only of individuals but also of society. But can this modifying be done
Lindblom (1975, 1977) argues against indicative planning or indicative planning plus some imperative elements, not on grounds of principle, but on the basis of its unsuitability and hence impracticability in a free society. As a political sociologist, he distinguishes two classes of society: the intellectually guided and the preference guided. The intellectually guided society is a socialist nation with full economic planning apparatus to allocate all or most resources. The alternative is the preference guided society where most resources are allocated through the interplay of free markets. Planning in such a society is the intrusion of some of the apparatus of the intellectually guided society - and hopes for it may be dashed. This is because plans and indicators displayed by the planners through the planning system are almost inevitably subordinated to established social interactions, i.e., market forces and the modus vivendi of the institutions through which market forces operate.

This may be so as far as purely indicative planning is concerned. The indications may be noted but not heeded if they conflict with market indications - and if they do not conflict they have no point anyway. This could also be true in a voluntary CPA system, with firms reluctant to enter one in the first place and, when they do, ever ready to break the agreement when market forces press. The argument for compulsory agreements, however, is more finely balanced. They do indeed divert if they do not actually run against market forces, but, if based on genuine agreement and
backed by appropriate sanctions, could perhaps succeed in their objectives of, for example, positively promoting growth more effectively than the negative constraint of anti-trust policies. Whether or not they do succeed may depend as much on social history and culture (see Chapter VI) as the ingrained strength of market forces.

So far in the chapter, doubts have been centered on the response, or lack of it, by companies to the planning initiatives of government, without questioning whether the objectives of the planners themselves reflect the interests of society. Mention has been made of the possibility of "regulatory capture" - when an agency set up to regulate prices or competitive structure of an industry or monopoly becomes so imbued with the ethos of the organisation being regulated that it is regulated in its interests, not the public interest. This is one ramification of the "public choice" analysis of government economic policy intervention in business affairs. Buchanan (1978) and others, following Downs (1957), points out that it is illogical to analyse consumer and business behaviour as aiming to maximise personal and corporate satisfaction (in terms of income, profit, power, security or whatever) but assume that government aims simply to serve the public interest. Politicians seek offices of power for a variety of motives, including income, prestige and self-fulfilment as well as to act in what they believe to be in the public interest. They obtain power in a democracy by persuading sufficient of the voters that their programme will satisfy the voters' more than the programmes of competing parties. Thus just as businesses seek to maximise profits (or other goals)
so political parties seek to maximise votes, while voters seek to maximise utility through their vote just as they seek to maximise utility through their economic activity in the market place.

Development of this approach shows that not all voters are equal and majority interests do not always prevail. Some voters have more knowledge and more incentive than others to persuade through lobbying both voters and parties. They may acquire such knowledge and incentive through their employment. A minority of voters whose households are dependent on income from employment in a particular industry are likely to feel more intensely and be better informed about a political proposal affecting that industry than consumers of the industry’s product. This inequality may be furthered by employers and firms in the industry using their resources to persuade voters and parties of their point of view. Thus producer interests may carry more weight in political debate than numerically larger consumer interests. There are also bureaucratic interests. Public officials, appointed to execute the will of elected representatives, have their own interests just as other producers, politicians and voters do. Their interests in personal power, prestige and self-fulfilment may be reflected in the aim of maximising the department’s employment and budget.

Application of public choice theory to planning and in particular to CPAs suggests that the idea of planning will appeal to the Civil Service since it increases its role and influence and hence size; the more detailed and interventionist the better. Left to civil servants, trade unionists and
business managers it is likely to reflect producer rather than consumer interests. On this basis, planning may be feasible and made acceptable to participants - at society's cost. Politicians may go along with it for the same reasons, or like Mrs Thatcher, make a populist appeal against it.

In a sense, Public Choice puts a theoretical framework on popular attitudes including a growing mistrust of and cynicism towards politicians and public officials in recent years. From this, it provides part of the intellectual basis for privatisation in a belief that the boards of nationalised industries (and government departments sponsoring them) cannot be relied upon to act in a Morrisonian way as "high custodians of the public interest", independent or largely independent of market forces. Thus British Telecom, British Gas and British Airways are expected to be more responsive to consumers requirements once liberated from bureaucratic control and exposed to competitive market forces. This is, of course, a complete reversal of the whole concept of increased reliance on intervention through planning and company planning agreements.

Public Choice theory, however, is not only to be used as a tool of classical liberal economics or right-wing, market ideology. It can be used in criticism of the forms of privatisation adopted in Britain. Gas, telecommunications and airways privatisations each showed the power of producer interests to influence government decision-making. In the case of gas and electricity, the nationalised boards supported by the trade unions,
dissuaded the Government from creating more competitive markets by fragmenting the industries or effectively liberalising market entry on a substantial scale, while British Airways was substantially protected through the route licensing system.

In fact, the value of public choice theory is in showing how all government action—either increased economic involvement and intervention or reduced—must be scrutinised for confusion between the public, ie the social or community, interest and the interests of powerful participants, especially producer interests. Since the pursuit of such interests cannot be avoided, it is necessary for countervailing powers to be built up. These may be broad consumer interests and/or local, community interests which may be expressed through political action, including organised pressure group politics. The possibility of such countervailing power being effective means that the public choice analysis has not destroyed the case for CPA systems as instruments of economic efficiency and social welfare. Experience suggests, however, that the odds are against it.
VI THE SOCIAL AND CULTURAL FRAMEWORK

It is clear from the history of planning and consideration of the idea of Company Planning Agreements that they are areas where economics and politics are interwoven. Political presuppositions underpin understanding of how the economy works while the objectives of the planners (and the objections of those against planning) usually include political as well as economic ones. It is my submission, however, that there is much more to it than politics and economics. Differences in economic performance between times, between regions and between countries owe much to historical, cultural and institutional factors.

Thus the poor performance in terms of growth of the UK economy relative to that of other western European countries during the 1950s reflected deep-seated and long-lasting cultural and institutional differences. Then failure to recognise or appreciate the significance of these differences, especially between Britain and France, led to misunderstanding of French indicative planning and the failure and rapid abandonment of British experiments in indicative planning in the 1960s. So, further interventionism in the form of CPAs - in their goals, in their content and in their form and execution - requires more than economic and political analysis.

To explain the differences and the significance of these differences between Britain and other advanced industrial countries that have a bearing
on the appropriateness and chances of success of indicative planning, with or without active interventionism through CPAs etc, there is a range of literature to be appraised. Some contributors emphasise institutional factors, others the power of ideas and attitudes, culturally conditioned, others the disintegration of the allegedly necessary religious or ethical underpinning of the system in which economic development may take place, and others the changes that new technological and ecological factors will in future force on society. It is appropriate to begin by setting the discussion in a broad historical framework - as constructed by Braudel (1982) to explain capitalist development. His conclusion drawn from a world-wide study is that the capitalist process can develop from certain general economic and social conditions. First, there has to be a vigorous and expanding market economy; in the fifteenth to the eighteenth centuries favourable geographical, demographic, agricultural, industrial and commercial factors were operative world-wide, supplemented by the liberating action of world trade. This is a necessary but not sufficient condition. Second, there must be the right antecedents: a hierarchical society with dynasties that survive long enough to accumulate wealth and yet with ladders to permit social mobility.

Braudel is rightly sceptical of simple, all-embracing theories to explain economic growth, such as those of Max Weber and Werner Sombart. Weber (1904) suggested that it was more than coincidental that industrial development should have flourished in the eighteenth and nineteenth centuries in Protestant north-east Europe. The Puritan ethic enjoined the
individual to use his talents to the full in his God-ordained station. Prosperity would be a sign of election but should be used for the common good, not luxurious living. In contrast, Sombart (1912) linked economic growth with rationalism and The Enlightenment, seeing the development of double-entry book-keeping in pre-Reformation Italy as having a crucial innovative impact on economic development and growth. Braudel does agree with Sombart that the capitalist spirit can be seen at work in fifteenth century Florence but explains the more rapid developments in north-east Europe as the result of technological and political accidents, coupled with favourable economic circumstances.

The Reformation and the Counter Reformation did play important roles, he argues, not so much in their theology, but by their indirect political and social effects. The Reformation gave coherence to the northern countries and led to the establishment of a network of communities with common or similar religious bases. It left them, however, still rather unsure of themselves, with flexible, mobile, pluralistic societies. The Counter-Reformation, on the other hand, acted as a cement holding traditional society together and so was a conservative force unfavourable to change and development.

To reinforce his argument, Braudel turns outside Europe to contrast China and Japan, drawing on work by Norman Jacobs (1958). China satisfied the first condition for capitalist economic growth - a vigorous and expanding market economy, but not the second. Over the centuries, China has been
ruled in an authoritarian style with a closely-knit bureaucracy. Society has been imbued with a strict tradition of Confucian morality. These have promoted a culture in which service to the state is praiseworthy and attempts to accumulate individual riches condemned. By comparison, Japan in the sixteenth, seventeenth and eighteenth centuries was sparsely populated and backward. It had a variety of conflicting military, political and economic groups, rather like medieval Europe. This pluralism led to conflict and movement even after the shoguns established the Tokugawa dynasty. Thus Japan did satisfy Braudel's second condition - a society with hierarchies and dynasties that survive to accumulate wealth (merchants in the case of Japan) and divided into groups with ranks of precedence but ladders permitting social mobility. In both Europe and Japan, merchant families seeking social advancement overcame obstacles set by a wasteful and ostentatious nobility through the exercise of thrift, prudent accumulation and shrewd calculation.

Olson (1982), while concentrating on the twentieth century, stresses in a similar persuasive way the effect on economic growth of institutional factors within society. He sees growth as a by-product of instability, or rather, institutional stability as an obstruction to change and hence to growth. His thesis is that interest groups tend to become protectionist pressure groups. They flourish in so far as the individual members' self-interest coincides with the group interest or in so far as the individual can be coerced or persuaded to act in the group interest, thus avoiding the well-known free-rider problem in the provision and
distribution of collective goods. These conditions are difficult to satisfy and so put a premium on keeping the group small relative to the community as a whole and are likely to require a long period of social, political and economic stability before they are satisfied. Given such stability, however, there is a probability that such "distributive coalitions" (Olson's phrase) will develop and that their protectionist, restrictive-entry biases will tend to obstruct the dynamics of economic growth. Furthermore they are far more likely to be formed and to succeed than much larger interest groups which Olson calls "encompassing organisations" representing such broad groups as taxpayers, the unemployed, the poor or consumers. Such organisations would distribute benefits to a much wider constituency, perhaps the whole community and, if they had the power, might try to promote policies for economic growth among other goals. Olson does not in fact argue that encompassing organisations are a good thing, but rather that even if the problems of actually founding and sustaining them are overcome, they are likely to be so weak that they are unable to do much actual harm. This is because the free-rider problem - both temptation to be one and sanctions against - is inevitably more acute.

Olson argues that this analysis is applicable to any society or nation. It so happened that Britain had a sufficiently flexible and mobile society to stifle the development of distributive coalitions in the 18th Century so that industrialisation and rapid economic growth could take hold sooner than in other countries. This helpful state of flux followed the constitutional and religious upheavals of the 17th Century - the Civil War,
the Puritan Republic, the Restoration of the Monarchy and the traditional episcopal church, which left a more pluralistic and unsettled society than ever before with various conservative and more radical groupings, few of which felt themselves securely established. It is significant that industry developed away from the more conservative and established metropolis and that many early entrepreneurs were religious dissenters.

Since the end of the 17th Century, however, Britain, in contrast to the rest of Western Europe and North America as a whole, has had political stability, with a gradual extension of the franchise, and unchanged frontiers. This has proved fertile ground for the vigorous growth of distributive coalitions in the present century. These have led to a kind of institutional arthritis which has inhibited economic growth. The same is true, Olson demonstrates, of the north-eastern states of the USA. By contrast, the southern states endured defeat in the Civil War and a century of racial conflict while the western states were the New Frontier; in neither case could special interest groups gain and hold growth-impeding power and in both economic growth is faster than in the north east. German and Japanese growth since 1945 is explained by the elimination of pressure groups on the left, by totalitarian governments pre-war, and on the right, by the victorious allies post-war.

Olson's analysis is persuasive. Its significance lies in concentration of attention on special interest distributive coalitions. If there has been sufficient social and political stability for them to be formed and become
and remain effective, they are likely to resist attempts to increase government intervention in the economy. Business pressures that helped persuade the 1974 Labour Government to abandon the idea of compulsory planning agreements is an example. But if the Government had been stronger politically and had persevered with the idea, then the distributive coalitions – trade unions as well as business groups – might well have had the power and the practised skill to use the new system to buttress their own positions and resist change. Thus CPAs might have been used to frustrate the government’s planning objectives.

Olson’s stress on the role of institutions seems to contrast with Wiener’s (1981) emphasis on the influence of ideas and culture on the relative slowdown in British economic growth. We shall see, however, that the contrast is more apparent than real – at least in respect of Britain; Wiener does not present a universal theory. He accepts that the English social structure was favourable to economic development in the 18th Century. It was no longer feudal and the landed aristocracy had a capitalistic spirit not antagonistic to the new industrial bourgeoisie (unlike Germany). Paradoxically, this flexibility and social mobility that fostered the industrial revolution in Britain also sowed the seeds of the subsequent relative slowdown. This is because it also meant continuity in institutions and, more important in Wiener’s eyes, of culture. Pre-industrial culture survived, mingled with the new industrial culture, permeated it and sapped its strength. This had two direct effects. First, industrialists aspired to be “gentlemen” or for their
sons to be gentlemen. Second, the persistence of pre-industrial culture affected social values generally—in politics, religion, literature, and industry. Indirect effects on industry were to humanise it and at the same time make it less aggressive and expansionist. It may also have contributed to the generally lower status of engineers in Britain noted by Ahlstrom (1982). Also on the subject of engineers it may be noted in passing that their relatively high status in Germany since 1945, analysed by Hutton and Lawrence (1981), fits the Olson thesis of the effects of the War, its outcome and its aftermath on social structure.

Wiener crystallises the differences between the surviving pre-industrial culture and the industrial culture as between the south and north. The "Southern Metaphor" stood for a romantic view of life, predominantly Anglican in religion, emphasising order and tradition and believing that man was born to save (the latter at least reminiscent of Braudel on China). The contrasting "Northern Metaphor" was pragmatic, calculating, adventurous and motivated by economic self-interest*. Linking Olson and Wiener, it was the absence of political upheaval that facilitated the triumph of the Southern Metaphor. Had Napoleon invaded Britain or had there been violent revolution in the first half of the 19th Century, it might be surmised that the Northern Metaphor would have been better equipped to survive. But this was not the case, and so industrial spirit

* Wiener takes the concepts of Southern and Northern Metaphors from an Australian, Donald Hume: "God is an Englishman", Sydney, 1969.
and British economic power declined. Twentieth Century Britain inherited from the second half of the 19th a sense of guilt about the industrial revolution and nostalgia for an idealised pre-industrial culture; this was apparent in politics, economics, religion and society generally.

Many examples of this inheritance and its effects are given by Wiener. JS Mill and Matthew Arnold stressed the need for quality rather than quantity. The later Dickens recoiled from his earlier sympathetic attitude towards industry. Ruskin denounced technology and industrialisation. Keynes, as Hirsch (1977) also emphasised, implicitly assumed a pre-industrial system of social values and obligations. Prime Minister Baldwin, "the country is England", undermined liberal capitalism with a collectivist or corporate approach. On the Left, Ramsey MacDonald condemned "economic fetishism" and Lansbury dreamt of urban dwellers resettled in the countryside dancing around the maypole. Schumacher (1973) and Mishan (1967) show guilt feelings about the effects of industrialisation. Christian social thinkers contrasted the requirements of economic growth and those of a moral society. Nostalgia for the Middle Ages permeated the ideas of the early Christian Socialists. On this latter point, Preston (1977) argues rather differently that there was a collapse of Christian social teaching at the end of the 17th Century. This led, not only to the nostalgia for the Middle Ages noted by Wiener, but also to a simplistic espousal of individualistic, laissez-faire economics by many 19th Century churchmen. But for this (18th) "century of vacuity in Christian social ethics" the 20th Century inheritance of guilt and nostalgia and indeed the actual
course of the industrial revolution might have been different.

Before the 20th Century had dawned, however, the seeds of the de-industrialisation of Britain had been sown. The financial resources concentrated in the City of London were being increasingly diverted away from British industry towards investment in services and overseas. Wiener admits that a decline in the relative profitability of British industry and a desire for greater stability and security were important in this, but also sees it as further evidence of the force of the Southern, anti-industrial metaphor. Burgess (1983), reviewing Wiener, emphasises rather more the role of imperialism in this process. Recognition of Britain's increasing dependence on income from investment in the Empire led to concentration of still more resources there instead of in technological development at home, while at the same time the prevalent imperial culture (Kipling, etc) ignored the importance of industrial development in initiating and sustaining that imperial investment and providing the means whereby the Empire was administered and defended.

Burgess argues further that Wiener misses the importance of the changing role of the state during the 1930s and 1940s as a contributory factor in Britain's relative economic decline. "Corporatist-style" strategies - getting industrialists, trade-unionists and government together - to resolve social conflict and economic instability are further evidence of the supremacy of the Southern Metaphor over the Northern, but can do little, suggests Burgess, to promote industrial regeneration. This offers
little hope for indicative planning, with or without company planning agreements, as an agent of faster economic growth, but it reinforces Olson's analysis discussed above.

Burgess rightly notes that it is the form of state intervention in the economy rather than state intervention per se which is important. In France and Germany it has been and is different. In France there is a tradition, dating from at least the 17th Century, of centralism and dirigisme which is fully compatible with indicative planning for economic regeneration and growth, while in Germany authoritarian government from the time of unification under Prussia to 1945 has left its mark even though the Social Market Economy can be seen as a reaction from totalitarianism (Leruez, 1975, and Hesselman, 1982). This difference in the balance of power and the channels of influence clearly affects the relationships between government and industry. In particular, firms are more likely to be receptive to the idea of making a contractual agreement with government and such agreements are more likely to be effective to the benefit of both parties in a more authoritarian or centralistic tradition. Whether they work to the benefit of society as a whole is, however, another question.

Cultural factors are put in a more specifically, though general, economic context by Hirsch (1977). In contrast to the super-optimism of Herman Kahn (1977) who, on the basis of technological advances, foresees ever increasing trends in productivity well into the 21st Century, Hirsch pays great attention to the social limits to growth. Economic growth consists
of increased production of two sorts of wealth - democratic and oligarchic. The limits to production of democratic wealth - those goods and services the enjoyment of which by an individual is not conditioned by the quantity enjoyed by other individuals - are largely technological; and so the sky is the limit. The value of oligarchic wealth, however, does depend on who is enjoying it and how much they have: it is socially limited. Whether there is actual physical scarcity, as in the case of natural beauty spots that may be spoilt by congestion, or top jobs requiring ever higher qualifications as competition increases, or relative scarcity as when enjoyment depends on exclusiveness or relative position, there is a social limit to consumption. Thus increased income does not mean increased happiness, ie welfare. Conventional price deflators of nominal income therefore do not lead to true measures of real income. Hirsch notes that opinion surveys indicate that at a point in time, within one country, happiness or satisfaction with life is positively correlated with income, but not between countries, nor over time. The point is made more starkly in analysis of suicides. Suicide rates are inversely correlated with income, with constant levels of education. But education is positively correlated with income and when education is not held constant, suicide is positively correlated with income.

The Hirsch thesis is that all this causes a general dissatisfaction with the rate of economic growth and economic performance. It leads to pre-occupation with redistributive issues and, despite the prevalent individualism, a "reluctant collectivism". Yet what is needed to cope
with these social limits is acceptance of them and increased social cooperation which is out of key with the prevalent individualistic culture (and has become more so since the late seventies when Hirsch's book was published).

Adam Smith's invisible hand on the economy presupposed that individual, maximising economic agents were bound by a common social principle. Keynes taught that the economic system was amoral and that morality was an individual matter, there being no social morality. Nevertheless, he assumed economic policy makers would be motivated by high regard for the common good. The Chicago school, however, have removed the "paternalistic cover", clearly influenced by the theory of the economics of bureaucracy that economic policy makers cannot be expected to be anymore altruistically motivated than other economic agents. But, says Hirsch, this will not do; the liberal market economy is merely "a transitional case".

The Keynesian liberal economic order comprises, first, a free market, amoral, individual self-interest blindly satisfying social (market) wants micro economy and, second, a paternalistic, guided macro economy. The central authorities hold the ring, or rather, shape it according to changing macro requirements, but do not interfere in the detailed micro in-fighting. Initially, macro economic policy is passive, reacting to deficiencies or excesses in aggregate demand by reflation or deflation respectively. Later Keynesians find a more positive role in indicative planning, providing medium term indicators of potential growth for micro
economic agents. (In practice, as shown in Chapter III, this role has always involved rather more interventionist policies as well.) Then, as indicative planning is seen to have failed to deliver faster economic growth but to be accompanied by faster inflation, Keynesians turn to policies for control of the growth of aggregate incomes. This Keynesian progression is criticised by free market purists as a slippery path towards economic inefficiency through erosion of free markets at the micro level and by the left as a failure to intervene sufficiently to meet the reality of modern industry, in particular the rise of the meso economy which must be constrained by such interventionary means as CPAs. The Hirsch thesis, however, is deeper and casts doubt on the adequacy of both the above criticisms.

The inconsistency of Keynesians in expecting a call to duty beyond and above self-interest to be answered by the central authorities but no one else has already been noted. But, further, certain standards of honesty, restraint and respect for law on the part of the rest of the community are also implied. In a democracy the electorate is expected to elect those who will pursue the common good through Keynesian demand management and to accept their guidance. Among indications of deficiency in these presumptions are conspicuous attempts (increasingly unsuccessful in the 1970s) by governments to manipulate the business cycle for electoral advantage, the electorate's cynical observation of this, and attempts by powerful sectoral interests (eg coal miners) to seize advantage (or correct perceived disadvantage.)
Hirsch argues that an advanced economy in a liberal democracy has three characteristics of which any two but not all three are compatible:

(i) the economic drive of the free market
(ii) universal participation in voting and, ideally, in decision-making
(iii) the economic constraint coupled with a pyramid-shaped income distribution

Democracy, (ii), is consistent with an unequal income distribution, (iii), only if the free market, (i) is abandoned.

Democracy, (ii), and the free market, (i), can coexist only if the economic constraint, (iii), is removed, but it cannot because of the social limits to growth.

For unbridled market capitalism, (i) and (iii), it would seem necessary to suspend universal suffrage, (ii).

The reason why liberal capitalism has not collapsed already, says Hirsch, is because of its inheritance of pre-industrial, pre-bourgeois morality. The reason why it is now coming under increasing strains is because that inheritance is close to exhaustion. Thus the liberal market economy is a "transitiona1 case". Hirsch’s "pre-bourgeois" morality is akin to
Wiener's Southern Metaphor. It involves important moral and social foundations, traditionally built by religion. It tempers individualism by a social consciousness so that adequate provision of public goods is demanded without the emergence of an acute free-rider problem. It may also facilitate acceptance of income inequality through more overt exercise of social responsibility by those high in the income pyramid. In Hong Kong, suggests Preston (1983), this, largely unrecognised, religious basis is Confucianism; in Britain, of course, predominantly it is Christianity. Traditional religion, however, has not been very successful in adapting its theology and presentation to an industrial age, and the industrial age in its later stages has undermined its social/religious foundations by causing frustration from the ever more apparent social limits to growth. Novak (1978) put it more strongly that the free market has, particularly in England, wrecked havoc on the cause of community responsibility and that economic development has undercut the political and cultural structure.

Currently more closely involved in the formation of political and economic policy in Britain, Griffiths (1982) prefaces a critique of socialism with an attack on the sovereign power of the market system as espoused by Friedman and Hayek. This is that the agnostic bases of such a system cannot generate the values necessary for it to function. These values, which he finds in the Old Testament (concentrating on individual property rights and obligations rather than social and community responsibilities) are individual responsibility in stewardship of the earth's resources and concern for the infinite value and dignity of every other individual.
From the foregoing discussion it may be concluded that at present the UK economy is substantially conditioned by a mix of factors:

A surviving pre-industrial values - concerning such matters as authority, individual and social morality that exert a generally conservative impact on economic development and growth

B the spirit of individualism - facilitating and promoting development and growth but, potentially at least, destructive of A

C distributive coalitions - not necessarily in sympathy with A but a restraint on and sometimes in direct opposition to B

D social limits to growth

Although B is eroding A it still requires A in order to work. It is also limited by C and under threat from D. The possibility presents itself of CPAs becoming a new weapon at the disposal of C and so by restricting change and growth soften D.

Looking a little further ahead, however, the ecological dimension to economic development calls for attention. There are those who argue that action to take account of it is complementary to technological changes and a transformation of society that are also underway. Planning Agreements might be more effective in ensuring business cooperation in such action
than mere legislation. Others, however, foresee development of a much more fragmented society and small scale business activity in which CPAs would be much less appropriate.

Daly (1984) is an advocate of the "steady state economy". This is not a "no change" economy: knowledge and technology, and the distribution of income and resources are changing and will change all the time. But conventional models of the economic system are defective since the environment in which the system is set is ignored. The conventional interconnected circular flow model was adequate in the early stages of industrialisation, but 200 years of rapid economic growth mean that the economy is no longer infinitesimal in relation to the ecosystem. Daly's alternative to the circular flow model is the throughput model borrowed from biology and physics. Like an organism, the economy sucks in low entropy matter-energy and expels high entropy-energy matter back into the environment. Compound rates of growth of the organism cannot be sustained indefinitely since a perpetual motion machine contradicts the second law of thermodynamics.

Furthermore, as well as bio-physical limits, Daly notes ethico-social limits to growth that are reminiscent of Hirsch. Today's market prices cannot reflect the preferences of future generations who will nevertheless be affected by today's decisions, justifying intervention in their assumed interests. Beyond some point it is relative income that counts (Hirsch's positional goods). By encouraging greed and acquisitiveness, unbridled
economic growth corrodes moral capital.

Daly proposes that the market system should be constrained, using taxation to limit population growth and resource depletion and setting maximum and minimum income limits. It is difficult to see how such limits and depletion targets could be set arbitrarily and justly by government and agreed on a long-term basis. It is, however, possible to see CPAs as a framework in which business and community interests could be debated and long-term bargains struck.

Harman (1984) believes the next twenty years will be chaotic since there will be a transformation of society comparable to the shift from medieval to modern western Europe. He itemises four shaping forces:

(i) a shift to an "information society" which could promote the replacement of a society focussed on production, acquisition and consumption by a society focussed on development of "meaningful life and optimum human development;"

(ii) a shift to a global perspective;

(iii) awakening of the subjugated, especially women and the peoples of the Third World;
(iv) a shift in underlying beliefs away from scientific materialism to a "universal transcendentalism" or re-spiritualism of society, which would be experiential, non-institutional, and less fundamentalist and sacerdotal than hitherto.

All this will have a profound impact on corporations, says Harman. Managers will no longer be able to rely on established planning techniques but will have to try to "ride the wave of change". Borrowing phraseology from the US Declaration of Independence, he suggests that the corporation must "derive its just powers from the consent of the impacted". This means that financial priorities will have to give way to the priorities of their employees, employees of suppliers and (global) society generally.

This includes some of the interest groups to be involved in the original concept of CPAs. But it could well be that in such a process of debate, interests closest to the corporation and/or resistant to change (e.g. trade unions) would prove more powerful than weaker, further-off interest groups (Third World) that really need change if their members are to aspire to Harman's full human development ideal.

As observed implementation of the aims of Daly and Harman, both Americans, could be assisted through CPAs. Robertson (1983, 1984) however, is more of the "small is beautiful" school in which it is more difficult to fit them. Like Harman, he believes the next quarter-century will be critical and that business and social relations will have to change radically if "disaster" is to be avoided. He does not believe a shift to more authoritarian
controls, either left or right wing, would work and so is left with two alternatives. The first he calls "hyper-expansion" (HE) which espouses the optimism of Herman Kahn in using technological development to enable ever faster economic growth during the next two centuries. It promises income, status and satisfaction for an elite and enforced leisure for the masses and is subject to the social limits to growth critique of Hirsch.

The second, favoured, scenario Robertson calls "sane, humane, ecological" (SHE). Declining employment in both capital-intensive, large-scale industry and in large-scale services is inevitable, he argues plausibly. But there will be more work in local, small-scale enterprises and in the "household/neighbourhood" sector. Implications are that society will become more decentralised, that the boundary line between work and leisure will become increasingly blurred and that people will become less dependent on experts and more reliant on mutual self-help, making full use of new technology (eg personal computers and telecommunications).

He does not deny that for the foreseeable future there will still be a large-company sector which central government will have to take account of and seek to influence in its economic policy. The relevance of Robertson's analysis is, however, in pointing to the focal point of social change. If he is right, and his argument has plausibility, this will be at the small end of the scale, in local communities and networks of individuals and small groups. Thus while CPAs may have an important role to play in economic restructuring they may be of little value in social restructuring
and there - enforcing ecological requirements, for example - chiefly a
negative one.
VII THE ASSESSMENT

As discussed in Chapter I, company planning agreements are to be assessed according to two criteria:

(1) whether the concept of CPAs is well designed to promote justice

and

(2) whether CPAs are likely to be effective in practice

These criteria are inevitably interwoven. The validity of the concept is affected by the circumstances in which it would be put into practice. Promotion of justice as fairness must take account of current and prospective economic, technological and social developments. In assessing the concept, consideration should also be given to whether it is practical politics. These practical matters and well as the more theoretical bases of CPAs are included in the assessment (1); the concept is set in context.

This leaves under (2) consideration of the content of CPAs, their relationship to company planning as practised, their effects on business efficiency and macro-economic performance, and their effectiveness in reaching their objectives.
1. The Concept in its Context

The sixties and early seventies context in which the CPA concept was born saw increasing concentration of manufacturing industry which was still growing at least as fast as the economy as a whole. Industry was becoming more internationalised and CPAs were seen as a means of establishing or increasing the influence of national or social interests on the meso-economic sector, especially multi-national companies. Justice as fairness meant curbing monopoly power to restrict output in the interests of the few and enabling wider participation, if only through the greater influence of a more fully informed workforce, in business decision-making.

The situation is now very different. The meso-economy remains, but it is not increasing its share as it was. Manufacturing output is rising, but has not, and is unlikely to regain, its share of total output lost in the 1980-1982 recession and its labour force is much reduced. Output of services is increasing its share - but the pattern is very mixed with growth (and lack of it) in both very large and very small enterprises and in both high-tech, capital-intensive and low-tech, labour-intensive operations. CPAs would only be appropriate in large enterprises and probably only in those with growth prospects. Even more important than the pattern of output and employment is the emergence of large-scale, long-term unemployment and a widening of regional differentials in living standards.
Thus the objectives of CPAs must now be extended from the promotion of economic growth and wider participation in decision-making. Indeed, given that justice as fairness implies giving preference to the least advantaged (a priority for the poor), reduction in long-term unemployment and regional development should take priority over the older objectives if they conflict. Furthermore it will be argued that the privatisation and liberalisation policies of Conservative Governments since 1979 have been more effective in stimulating growth than planning could have been, but that they are unlikely to solve the unemployment problem. In these circumstances there might seem more scope for CPAs with local rather than national government but whether local CPAs could be made mandatory or command sufficient sanctions for compliance is open to doubt.

Thus there are several areas for analysis:

(i) Determination of the public interest requires forecasts of the social and economic structure.

(ii) It also requires restatement of the objectives of CPAs.

(iii) Are CPAs with, or without broader indicative plans, compatible with increased reliance on free competition?

(iv) Which type(s) of CPA is (are) most likely to work, ie promote justice?
(i) The Economic and Social Structure

In 1973, unemployment though higher than in the sixties was still only 630 thousand or 2.5% of the working population. Gross Domestic Product, in constant price terms, had been rising at an average rate of 3.1% a year since 1960. Since then there have been two severe recessions: GDP fell 2.6% between 1973 and 1975 and by 3.3% between 1979 and 1981. Moderately rapid growth was resumed after each recession, but GDP in 1987 was 15% less than it would have been if growth had continued at 3.1% a year from (pre-peak) 1972. Unemployment rose each year, except 1979, from 1974 to 1986, reaching a peak of 3.21 million, 11.6%, seasonally adjusted, in June of the latter year. Since then it has fallen, but was still 2.43 million, 8.7% in May 1988.

The data on unemployment by region shows that, although the rise after 1973 was proportionately greater in the previously low unemployment regions, especially the South East and the West Midlands, and that the fall since 1986 has been particularly sharp in some of the high unemployment regions, it has become and remains very high in the regions where it has been well above average since the 1930s. The significance of unemployment in consideration of justice as fairness is in the relationships between long-term unemployment and poverty and between poor job prospects for young people and demoralisation/anti-social behaviour. Thus it is important to note the relative concentration of both the long-term and the young unemployed in the northern regions.
Gross Domestic Product
at constant factor cost
1980 = 100

Unemployment
millions
[UK annual average, excl. school-leavers]
From 1973 to 1986, unemployment in terms of the percentage of the working population rose most in those regions where unemployment was already the highest - the North, Scotland, the North West and (a special case) Northern Ireland. But in proportionate terms, it rose fastest in the South East, particularly in the South East.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q3</td>
<td>June</td>
<td>May</td>
<td>male</td>
</tr>
<tr>
<td>North</td>
<td>4.3</td>
<td>6.4</td>
<td>12.7</td>
<td>145</td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>2.6</td>
<td>13.3</td>
<td>10.1</td>
<td>186</td>
</tr>
<tr>
<td>E Midlands</td>
<td>1.9</td>
<td>11.0</td>
<td>7.9</td>
<td>117</td>
</tr>
<tr>
<td>E Anglia</td>
<td>1.8</td>
<td>9.0</td>
<td>5.4</td>
<td>43</td>
</tr>
<tr>
<td>South East</td>
<td>1.4</td>
<td>8.6</td>
<td>5.7</td>
<td>429</td>
</tr>
<tr>
<td>South West</td>
<td>2.3</td>
<td>10.2</td>
<td>6.9</td>
<td>106</td>
</tr>
<tr>
<td>W Midlands</td>
<td>2.0</td>
<td>13.6</td>
<td>9.4</td>
<td>194</td>
</tr>
<tr>
<td>North West</td>
<td>3.3</td>
<td>14.2</td>
<td>11.3</td>
<td>265</td>
</tr>
<tr>
<td>Wales</td>
<td>3.2</td>
<td>14.2</td>
<td>11.2</td>
<td>105</td>
</tr>
<tr>
<td>Scotland</td>
<td>4.2</td>
<td>13.6</td>
<td>11.9</td>
<td>223</td>
</tr>
<tr>
<td>N Ireland</td>
<td>5.7</td>
<td>18.6</td>
<td>17.1</td>
<td>90</td>
</tr>
<tr>
<td>UK</td>
<td>2.5</td>
<td>11.6</td>
<td>8.7</td>
<td>1,856</td>
</tr>
</tbody>
</table>

Source: Employment Gazette

* percent of working population in 1986 and 1988; percent of employees (therefore slightly overstated by comparison) in 1973.
the East Midlands and the West Midlands: a sixfold increase from 1.4% to 8.4% in the South East compared with a near fourfold increase from 4.3% to 16.4% in the North. From 1986 to 1988, however, it fell only slightly more in absolute terms in the North and Yorkshire & Humberside than in the South East where proportionately it fell much faster. Unemployment in the West Midlands remains above average in 1988 whereas until 1973 it was below average. In relation to female unemployment (note, not all unemployed women are included since not all are eligible for benefit) male unemployment is notably high in the North, Wales, Yorkshire & Humberside and the North West.

Focussing on male unemployment, nearly a half has been long term (52 weeks or more). As duration increases, the proportion of young men falls. The 55 and over proportion has been affected by the increase in early retirement in recent years.

**MALE UNEMPLOYMENT: AGE AND DURATION**

*October 1987*

<table>
<thead>
<tr>
<th>Duration (weeks)</th>
<th>Total</th>
<th>Age</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>thous</td>
<td>%</td>
<td>under 25</td>
<td>25-54</td>
<td>55 and over</td>
<td>Total</td>
</tr>
<tr>
<td>less than 26</td>
<td>719</td>
<td>30</td>
<td>44</td>
<td>46</td>
<td>9</td>
<td>100</td>
</tr>
<tr>
<td>26 and less than 52</td>
<td>290</td>
<td>15</td>
<td>30</td>
<td>54</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>52 and over</td>
<td>895</td>
<td>47</td>
<td>18</td>
<td>65</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,904</td>
<td>100</td>
<td>30</td>
<td>56</td>
<td>14</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Employment Gazette*
The proportion of long-term unemployed, i.e., 52 weeks or more, among men does not vary greatly; furthermore, such variation as there is is not closely related to the level of unemployment. It is, however, proportionately highest in the West Midlands where total unemployment has risen most steeply. There is even less variation in the age composition of unemployment in which the under 25s everywhere account for a smaller proportion of long term than of total unemployment. It is clear, however, that the South East does have a relatively less severe long term unemployment problem with a smaller proportion of the long term unemployed under 25.

**AGE AND DURATION OF MALE UNEMPLOYMENT (MAIN REGIONS)**

October 1987

<table>
<thead>
<tr>
<th>Region</th>
<th>% of all unemployed</th>
<th>% of long term</th>
<th>% of long term under 25</th>
<th>25-54</th>
<th>55 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age under</td>
<td>Long term</td>
<td>under 25</td>
<td>25-54</td>
<td>55 and over</td>
</tr>
<tr>
<td></td>
<td>25 (52 weeks or more)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South East</td>
<td>28</td>
<td>43</td>
<td>16</td>
<td>65</td>
<td>19</td>
</tr>
<tr>
<td>(Greater London)</td>
<td>(28) (45)</td>
<td>(17) (16)</td>
<td>(16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yorks &amp; Humber</td>
<td>31</td>
<td>49</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>North West</td>
<td>31</td>
<td>50</td>
<td>20</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>North</td>
<td>29</td>
<td>49</td>
<td>18</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>W Midlands</td>
<td>29</td>
<td>53</td>
<td>17</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>E Midlands</td>
<td>28</td>
<td>46</td>
<td>17</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Scotland</td>
<td>33</td>
<td>46</td>
<td>21</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Employment Gazette
The effect of these regional imbalances shows up in differences in income growth. From the Family Expenditure Survey the growth of real value of total expenditure per household is calculated. All regions for which single-year estimates are published show increases for both the 1972 to 1979 and the 1979 to 1986 periods. But, whereas in London and the Rest of the South East there is some acceleration between the two periods, in the other regions there is a slowdown — to less than 1% a year in Yorkshire & Humberside, the West Midlands and Scotland.

GROWTH OF TOTAL SPENDING in real terms

<table>
<thead>
<tr>
<th>% pa</th>
<th>1972-79</th>
<th>1979-86</th>
<th>1979-86</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>per household</td>
<td>per person</td>
<td></td>
</tr>
<tr>
<td>Yorks % Humber</td>
<td>1.3</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>North West</td>
<td>2.1</td>
<td>0.8</td>
<td>2.0</td>
</tr>
<tr>
<td>West Midlands</td>
<td>2.5</td>
<td>0.2</td>
<td>0.6</td>
</tr>
<tr>
<td>South East</td>
<td>1.0</td>
<td>2.3</td>
<td>3.9</td>
</tr>
<tr>
<td>of which, Greater London</td>
<td>-0.1</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>Rest of S East</td>
<td>1.7</td>
<td>3.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Scotland</td>
<td>2.3</td>
<td>0.9</td>
<td>1.9</td>
</tr>
<tr>
<td>UK</td>
<td>1.7</td>
<td>1.7</td>
<td>2.5</td>
</tr>
</tbody>
</table>

More significant than these differences, however, are disparities within regions, which are reflected in household socio-economic classification (based on occupation of head of household), tenure and population density.
### HOUSEHOLD DISPOSABLE INCOME

<table>
<thead>
<tr>
<th>Socio economic group*</th>
<th>1986 per week</th>
<th>1982-86 % pa real growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC1</td>
<td>287</td>
<td>3.8</td>
</tr>
<tr>
<td>CZ</td>
<td>227</td>
<td>3.4</td>
</tr>
<tr>
<td>D</td>
<td>179</td>
<td>1.9</td>
</tr>
<tr>
<td>E (retired)</td>
<td>104</td>
<td>2.4</td>
</tr>
<tr>
<td>E (unemployed)</td>
<td>171</td>
<td>4.9</td>
</tr>
</tbody>
</table>

**Tenure:**
- Council tenants: 109, -3.2%
- Owner-occupiers with mortgage: 275, 3.0%
- " owned outright: 176, 1.9%

**Population density:**
- Greater London: 230, 4.2%
- Metropolitan Districts: 171, 1.6%
- Other cities and towns: 185, 2.8%
- Rural areas: 198, 2.2%

**Source:** Family Expenditure Survey, Department of Employment, annually

The high rate of growth of income of households with an unemployed head presumably reflects increased earnings by other members. The fall in income of council tenants reflects house-purchase and hence ending of tenant status by higher income households during the period. Within this
framework changes in the distribution of income are revealing. The lowest
growth shown above is in the Metropolitan Districts. Their income
distribution is shown in the chart below. The shift to the right for the
greater part of the curve indicates rising real incomes, but the shift to
the left at the bottom indicates an increasing proportion on low incomes.

By interpolation, it is apparent that in 1986 the bottom 20% had a normal
weekly disposable income below £67 which is 35% of the all UK households
mean income. In real terms, £67 in 1986 was worth £56 in 1982. In that
year only 16.5% of Metropolitan District households had less than that
income. Moreover, putting it into relative terms, 35% of the UK mean in 1982 was £50: in 1982, only 12.7% of Metropolitan District households had less than that income.

Using the same benchmarks, there is shown to be an increase in the proportion on very low incomes in all areas, but most markedly so in the London and other conurbations.

<table>
<thead>
<tr>
<th>PERCENT OF HOUSEHOLDS ON VERY LOW DISPOSABLE INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater London Metropolitan Other cities Rural</td>
</tr>
<tr>
<td>Districts and towns</td>
</tr>
<tr>
<td>1982 under £50  7.7  12.7  12.9  10.0</td>
</tr>
<tr>
<td>1982 under £56  11.1  16.5  16.0  13.3</td>
</tr>
<tr>
<td>1986 under £67  14.6  20.0  16.3  13.9</td>
</tr>
</tbody>
</table>

Source: Family Expenditure Survey

Because of the sale of council houses, no valid comparison can be made on the same basis for council tenants, but using the same benchmarks, it is shown that in 1982 council tenant households with less than £50 income accounted for 6.5% of all UK households and with less than £56 for 8.3%, but by 1986 those with less than £67 accounted for 15.9%. This is a clear indication that increasing poverty is to be found on council estates in cities. It may be noted that unemployment was in fact not very much higher in 1986 than in 1982.
Half a century of regional policies — exhortation, investment subsidies, employment subsidies, special treatment for broad development areas and then for narrowly defined districts — seem to have had little effect on economic disparities between regions. The most pronounced effect on these disparities as reflected, in particular, in unemployment rates, has been cyclical; they have tended to close in boom times and when the economy generally was growing strongly and to widen during recessions and in periods of relatively slow growth. The period since 1982 has been the longest of uninterrupted growth since the sixties; it has also been steady and moderately strong. It has led to a rise in employment — and a fall in unemployment (after allowance for changes in the bases of the statistics). While government policies in 1979-1980, including a switch from direct to indirect taxation which exacerbated wage-cost pressures and high interest rates which pushed up the exchange rate, almost certainly worsened the 1980-1982 recession, the policy of monetary and fiscal stability, as reflected in the gradual shrinkage of the Public Sector Borrowing Requirement as a percentage of GDP (at current market prices), can claim much of the credit for the subsequent recovery. Also credit for the recovery can be claimed for the government's micro-economic policy, including privatisation, which has sharpened incentives towards efficiency.

The "central" forecast of most forecasters is that, given continuation of present government policies and avoidance of a world trade recession, GDP growth will continue for at least the next five years, but at a rather slower rate. This would imply that the rate of growth of employment would
slow down towards that of the labour force so that the fall in unemployment may well be halted (as shown in the chart above). If world trade recession is not avoided, GDP growth might falter and unemployment rise appreciably. But even if, in a more optimistic scenario, the recent 3% a year rate of growth were maintained, it seems unlikely that unemployment will continue to fall as rapidly as of late - in view of current and likely future changes in the economic structure. Thus continuation of present policies is likely to leave unemployment well above two million nationally with very high rates persisting in certain regions and the consolidation of a potentially disruptive "underclass" in society.

Both male and female employment has risen in the last five years, a fall in industrial being more than offset by increases in services where female has increased more than male, the majority part-time. Output has risen faster in services than in industry but productivity has risen faster in industry.

GROWTH: 1980-1987

<table>
<thead>
<tr>
<th>% pa</th>
<th>Output</th>
<th>Employment*</th>
<th>Output per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whole Economy</td>
<td>2.6</td>
<td>-0.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Production &amp; Construction</td>
<td>1.7</td>
<td>-3.3</td>
<td>5.2</td>
</tr>
<tr>
<td>Services</td>
<td>3.2</td>
<td>1.3</td>
<td>1.8</td>
</tr>
</tbody>
</table>

* Employed labour force, ie including self-employed

Source: Monthly Digest of Statistics
Looking into the detail of the rise in industrial productivity, the following chart shows a contradiction of Verdoorn's Law: productivity has risen most in the slowest-growing that have shed the most labour. In fact, the correlation between the points on the graph is -0.90.

**EMPLOYEES IN EMPLOYMENT, GB**

<table>
<thead>
<tr>
<th></th>
<th>March 1983</th>
<th>March 1987</th>
<th>change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total: All</strong></td>
<td>20,211</td>
<td>21,128</td>
<td>+917</td>
</tr>
<tr>
<td>Male</td>
<td>11,497</td>
<td>11,622</td>
<td>+125</td>
</tr>
<tr>
<td>Female FT</td>
<td>4,970</td>
<td>5,338</td>
<td>+368</td>
</tr>
<tr>
<td>&quot; PT</td>
<td>3,745</td>
<td>4,168</td>
<td>+423</td>
</tr>
<tr>
<td><strong>Agriculture: All</strong></td>
<td>339</td>
<td>301</td>
<td>-38</td>
</tr>
<tr>
<td><strong>Production &amp; Construction:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>7,154</td>
<td>6,531</td>
<td>-623</td>
</tr>
<tr>
<td>Male</td>
<td>5,371</td>
<td>4,857</td>
<td>-514</td>
</tr>
<tr>
<td>Female FT</td>
<td>1,363</td>
<td>1,322</td>
<td>-41</td>
</tr>
<tr>
<td>&quot; PT</td>
<td>419</td>
<td>352</td>
<td>-67</td>
</tr>
<tr>
<td><strong>Services:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>12,718</td>
<td>14,296</td>
<td>+1,578</td>
</tr>
<tr>
<td>Male</td>
<td>5,865</td>
<td>6,540</td>
<td>+675</td>
</tr>
<tr>
<td>Female FT</td>
<td>3,560</td>
<td>3,967</td>
<td>+407</td>
</tr>
<tr>
<td>&quot; PT</td>
<td>3,294</td>
<td>3,787</td>
<td>+497</td>
</tr>
</tbody>
</table>

*Source: Employment Gazette*
Growth in employment in services has been broadly based, but two sectors stand out: hotels, catering and distribution (notably catering) and banking, finance etc - the latter with much more scope for productivity growth through new technology developments than the former.

**EMPLOYMENT IN SERVICES**

<table>
<thead>
<tr>
<th></th>
<th>March 1983</th>
<th>March 1987</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels, catering and distribution</td>
<td>3,847</td>
<td>4,293</td>
<td>+446</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>1,304</td>
<td>1,322</td>
<td>+18</td>
</tr>
<tr>
<td>Banking, finance, insurance, etc</td>
<td>1,702</td>
<td>2,261</td>
<td>+559</td>
</tr>
<tr>
<td>Other</td>
<td>5,865</td>
<td>6,240</td>
<td>+375</td>
</tr>
</tbody>
</table>
This analysis suggests that, on present policies, manufacturing industry is unlikely to regain its former pre-eminence in the British economy and that the continued growth in the British economy does not depend on it doing so; the potential growth of home and export demand for services is an adequate substitute. Furthermore, as shown in Chapter IV, the increase in concentration in manufacturing industry has been checked in the seventies and eighties. For the future, the technological factors affecting supply and the social factors affecting demand are mixed. The new computer and communications technologies facilitate the development of small scale, flexible and widely dispersed enterprises to meet growing demand for commercial, industrial and financial services. At the same time, the increasing numbers of very old people and the high income proportion of the working population will demand more, labour-intensive, personal services.

The rise in self-employment and in the number of firms reveals an increase in small businesses. The number of legal units, however, rose by only 13% between 1980 and 1987 to a total of 1.55 million, the biggest increases being in finance, property and professional services (40% to 125 thousand) and "other services" (47% to 203 thousand). (Source: Business Monitor 1004)

Data from the annual New Earnings Survey, taking two years with similar intensity of economic activity, for both men and women and in both manufacturing and total, manual employees as a percentage of the total fell between 1979 and 1987. Over that period, average earnings in manufacturing kept pace with the total, despite the fall in employment; it seems that the
cuts in employment have been concentrated among the lower paid and the unskilled. Overall, average earnings for male and female manual employees rose by 9.0% and 9.6% pa respectively and for male and female non-manufacturing employees by 11.3% and 11.5% pa respectively. Over the same period, the Retail Price Index rose by 7.6% pa.

Even on a more optimistic scenario of 3% a year GDP growth, with a continuation of current trends, it would still be most probable that employment growth would fall short of 1% a year, made up as follows (0.7% equals 175,000 jobs):

<table>
<thead>
<tr>
<th>% pa growth</th>
<th>Output</th>
<th>Output/head</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production and construction</td>
<td>1.5</td>
<td>5</td>
<td>-3.3</td>
</tr>
<tr>
<td>Services</td>
<td>4.0</td>
<td>2</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>3.0</td>
<td></td>
<td>0.7</td>
</tr>
</tbody>
</table>

In this context it follows that the object of economic policy should be to facilitate, or at least not obstruct, identifiable current and prospective growth trends and pursue other policies to raise economic growth. More growth would reduce unemployment; an appropriate target might be to cut the number on the register to one million. It would also increase tax revenues, providing more resources for the non-employed poor, eg the elderly and the handicapped, and for overseas aid - the external poor. It should be remembered that output rose and unemployment fell from very high levels in the thirties through the development of new industries, generally
without government intervention or support.

It is becoming increasingly likely that current policies will perpetuate growth with low inflation, but, despite changes in social security provisions designed to reduce disincentives to seek employment, unacceptably high levels of unemployment. It is also becoming generally accepted that simply raising the level of aggregate demand through fiscal measures will at best be largely ineffective and at worst counter-productive by re-kindling inflation.

The obstacles to growth that an economic planning system including CPAs, should be designed to remove are both economic and social/cultural. The economic are centred in the operation of the labour market, others in the stagnant society that stifles initiative and innovation.

It is clear that the non-accelerating inflation level of unemployment (NAIRU) has risen sharply since the mid seventies (and earlier) to around 10% of the working population. For the reasons given above, such a level is unacceptable for a just society. Various studies, eg Bean (1987), have shown that much of the problem lies in the unemployment structure. Most of the long-term unemployed have in effect dropped out of the labour market, not seriously seeking employment and so exerting no pressure in the wage-bargaining process towards lower rates of pay that might encourage firms to engage more labour. Wage bargains are struck between management and insiders (those in employment). Insiders,
although they may moderate wage claims to avoid hazarding their own jobs, have no interest in lower settlements that would lead to higher employment. Management might be encouraged to press for lower settlements by the presence of a large body of unemployed with sufficient skills and up-to-date experience seeking work and apparently ready to accept lower rates than claimed by insiders' representatives.

Such considerations led to the fall in the underlying annual rate of increase in average earnings from 17% (all industries and services) and 14.5% (manufacturing) in January 1980 to 7.5% (all) and 8.5% (manufacturing) in 1983. Since then, however, increases have first stuck at around 7.5% and then edged up towards 9% as unemployment has fallen to 8.7% (May 1988), compared with 10.8% in 1982. Over the same period, many of the long-term unemployed have left the labour force while the number unemployed for less than six months has shrunk from 5.0% to 3.2% of the working population.

Policies to bring the long-term unemployed, both those who have dropped out of the statistics and those still registered, back into the effective labour force include re-training schemes and employment subsidies. These could stand alone but would be more effectively pinpointed and monitored as part of a CPA - between central government and meso-economic companies and between local authorities and smaller enterprises.
It is possible, however, that wage-increase stickiness is but one aspect of a stagnant society with deficiencies in enterprise and initiative on both sides of the bargaining table and powerful interests able to stifle new ventures such as the AEUW-Ford proposals in 1988 for a one-union, strike-free, non-national wage plant at Dundee. That failure does not augur well for the use of CPAs to introduce new ideas into pay and labour relations generally. There is resistance to change rooted in the culture which cannot be transformed overnight. Such a transformation, however, is an objective of the present Government's policy; to build an "enterprise culture", not through planning but through development of a more competitive business environment and by increasing incentives through tax cuts.

Can CPAs play a culture-changing role? If changing the culture towards, in the economic sphere, greater acceptance of risk, innovation and the requirements of economic growth generally were to be given high political priority, then CPAs could be used as an educational vehicle to spread the word, during negotiation and monitoring to help shift attitudes of management and unions. However, accepting the validity of Olson's analysis that there is resistance to growth in regions within nations where economic, social and political life has been stable for a long time so enabling "distributive coalitions" to form and gain sufficient power to resist change, this resistance seems likely to be more powerful than the political will to promote change. In the UK context this means that absence of growth in the older industrial areas reflects not merely loss
of markets for their products but also, resistance to change, whereas the
more fluid and multi-cultural society of the south-east can muster less
obstacles to growth - a complete role-reversal compared with the years of
the industrial revolution. On this basis, the best chance of stimulating
growth in the older industrial regions is a vigorous disturbance of the
socio-economic culture. Perhaps a decade of very high unemployment and
rapid run-down of employment in several manufacturing industries is doing
just that. In this context, CPAs are more likely to be of use in
providing the framework for selective employment-creation or preservation
activities to mitigate or soften the effects of the process of industrial
decline than facilitating changes in the socio-economic culture. Indeed
there is the danger that interest groups will use their bargaining
strength to make CPAs instruments of protection and resistance to change.

There are further political considerations. CPAs have been seen as part
of a far-left political package of proposals for economic regeneration,
either in the first steps in a gradualist programme towards a socialist
economy or as instruments through which more drastic measures of control
are enforced. Barring a major economic collapse much deeper and longer
than 1974-75 or 1980-82, this seems no more likely to win popular support
or the cooperation of business than did the milder proposals by Labour in
1973. It is very unlikely that such programmes could be launched without
such support and cooperation. Thus far-left programmes are to be seen
as incompatible with the social/cultural environment.
The trend towards more ideological party politics on both right and left and divergent moves in Labour and Conservative policies since the mid seventies came at a time when society as a whole had become more pluralistic and possibly less ideologically committed. The result has been a reaction from the old consensus policies (Keynesian demand management and incomes policies etc) which seemed to have failed and much greater than hitherto volatility in voting behaviour than in the fifties and sixties. Three successive General Election victories for the Conservatives do not indicate that this volatility has lessened, rather that a divided opposition, itself a function of pluralism and a retreat from ideological commitment, with the first-past-the post voting system, could not win.

If this analysis is correct, then it is possible that there will be a further reaction towards the centre ground, prompted by general economic slowdown or dissatisfaction with an economic policy which leaves a seemingly permanent unemployed minority and a potentially disruptive underclass. This could favour either a centrist party or prompt Labour and the Conservatives to converge. Centrist policies might include some form of economic planning which if the lessons of the past have been learned would have a micro and meso economic emphasis and so could feature CPAs.

The above is based on the belief that in general economic growth is a good thing. It creates jobs for the unemployed, increases the well-being
of those whose real incomes rise and increases government revenues to finance social services and overseas aid. There is, however an anti-growth case to be considered.

The anti-growth case is that the costs of economic growth, largely unmeasured, outweigh the benefits. There is also a supplementary argument that growth of gross domestic product is not a good indicator of true economic growth but that growth policies are usually designed to promote expansion of GDP.

To dispose of the second argument first, GDP and GDP per head are, of course, imperfect measures of well-being since GDP is gross of capital consumption, which in constant price terms has been rising faster than net national product ever since the mid seventies. Furthermore it includes all paid work, be it costs of other activities, eg sound proofing necessitated by increased aircraft noise, as well as the other activities themselves, and regardless of whether the costs are borne by individuals or the community. In a market system, however, consumers who pay, wholly or in part, for acoustic double-gazing feel better-off in consequence than they otherwise would. It is when the payment is made wholly collectively that more doubt arises about benefits since payment is a political decision open to influence by interest groups especially when it is of only marginal importance to the electorate as a whole.

Clearly policies designed to raise the value of GDP as a statistical
measure without an increase in genuine economic activity are not directly growth-promoting. Even when there is substantial unemployment, there has been no attempt to employ those on the register on completely useless work such as digging holes and filling them in again in order to reap the benefits of the multiplier effects of the spending of the extra incomes. There is, however, point in the argument that macro-economic measures to boost aggregate demand to or beyond the level of full capacity may succeed only in raising monetary demand and the price level, leaving demand in constant price or real terms unchanged or possibly even lower.

The latter point about the need to be on guard against promoting inflation rather than real growth apart, it is reasonable to conclude that policies to promote GDP growth will promote real growth even if not at the same rate. The amount of work that is unpaid and so not in GDP may be rising faster than GDP and might be reduced by growth-promoting policies, but GDP and real growth are still likely to be positively correlated.

Turning now to the costs and benefits of economic growth, the anti-growth argument centres on environmental hazards. These include pollution attendant upon growth, especially industrial growth, and misuse or waste of resources. Pollution, however, is more the by-product of neglect that can occur in a stagnant economy. Indeed, a growing economy with rising tax revenues is in a better position to combat pollution and is more
likely to do so. Pollution is an argument for intervention and planning, not policies to prevent expansion.

Misuse or waste of resources may result from the "short-termism" that may prevail in unfettered markets rather than growth itself. It may well be that the market system needs adaption if long term implications of the use of finite resources are to be properly discounted. Again this is more likely in a dynamic than in a static economy and it is a further argument for intervention and planning.

On the positive side, at present the chief resource that is being wasted is labour. Faster growth is needed to reduce unemployment and hence poverty. The problem is how, since it is reasonably clear that stimulation of aggregate demand by macro-economic policies will not. At the same time, concern about poverty and hunger in the Third World is best directed towards increasing growth, requiring increased exports from the Third World, and concentration on the distribution of the resources created towards development. Again, government (and international) intervention and planning may be necessary to prevent exploitation and counterbalance the power of multinational companies operating in the Third World.
(ii) OBJECTIVES RECONSIDERED

In the light of the changes in the economic and social structure and prospects since company planning agreements were first proposed, it is necessary to reconsider what policies they might facilitate and what it is hoped they will achieve. Promotion of justice still has macro-economic requirements but they are more directly focussed on employment creation and preservation. At the same time, the call for a more participatory and sustainable society is sharpened by new or widening divisions in society.

Thus the GDP-increasing aim of indicative planning in the sixties is still relevant to the eighties and nineties. Growth since 1982 has led to increased employment and a fall in unemployment, though the unemployment total remained above 2.5 million until mid-1988 and with little reduction in the hard core of long-term unemployed. GDP growth also has the function of increasing tax revenues that could finance extra resources for social services, for maintenance and improvement of the economic infrastructure and for overseas aid which, with more public awareness of the need, probably now has greater public support than in previous decades.

Given that macro-economic measures to increase aggregate demand have, at best, a limited effect on real output growth, government intervention (as opposed to promotion of and reliance on a more competitive business environment) necessitates more specific micro/meso-economic measures to realise the objectives - to change business decisions and prompt new
initiatives. Such changes might include:

expansion of production facilities in the UK rather than overseas (or contraction overseas rather than in the UK) by multinational companies;

labour-intensive developments rather than labour-saving investment;

avoidance of plant closures where they could be averted by long-term government guarantees;

encouragement of new ventures by opening up new markets for public services, eg in personal care.

Such measures might be pursued through general subsidies or individual negotiations. The former, however, are indiscriminate where specific pinpointing may be required while the latter may lack a sufficient framework for assessment. CPAs provide a framework for a continuing relationship between government and the individual business where a long-term commitment on all sides is required. Such a framework, however, is sufficiently flexible to allow scope for adjustments to meet changing circumstances. It also provides an arena for monitoring of the agreement and the company's observance of MNC codes of practice. A CPA on a tripartite basis - unions as well as government and management - provides a long-term vehicle for involvement of the labour force - tapping the resource of the "gold in workers' heads" (Murray, 1987). A further function
of a CPA is to provide a forum for consideration of economic information, including forecasts linking company plans with national economic assessments.

Worker involvement is also relevant to the promotion of a more participatory society. There is, however, a potential conflict here. Industrial democracy may diminish the alienation felt by workers in a large enterprise by increasing the involvement of their representatives in decisions that affect them. Participation in a CPA is more valuable in meeting this objective than profit sharing or employee share ownership even if they might be more potent in raising productivity. But loss of power and influence felt by trade unions since 1979 as a result of legislation and the Government's unwillingness to consult them on general matters of economic policy does not necessarily mean that employees have become more alienated at their place of work. Where alienation has almost certainly increased is among the long-term unemployed and among young people without work and without hope of work. Thus there is a conflict of interest between these "outsiders" and "insiders" with jobs. Insiders able to participate through CPAs may suspect their living standards could be at risk through measures to improve the job prospects of outsiders. Such a conflict of interest would be acid tests of trade union breadth of vision and the statesmanship of union leaders. (It is, of course, precisely the problem to which Weitzman, 1984, addressed himself.)
In CPAs with local government, eg in inner city redevelopment, some form of community participation also could be helpful in tackling alienation.

Generally, justice in society requires safeguards against the accumulation and exercise of excessive power. In the business field, CPAs provide a location for counterbalancing power.

Finally, CPAs could have a role in the promotion of a sustainable society. It is argued that the community/society has long-term goals that business ignores. There is, however, evidence (see the survey) that many businesses plan much further ahead than governments which rarely look far beyond the next election.
(iii) PLANNING AGREEMENTS AND COMPETITION

Company planning agreements contrast with competition policy as means towards economic ends not so much in that CPAs are part and parcel of an interventionist approach to economic policy while competition policy is non-interventionist but rather that the CPA approach is selective while competition policy is generally indiscriminate. This requires further qualification.

The major point about CPAs is that each company is different requiring a different mix of government policies and initiatives. Thus the content of the CPA will depend on the nature of the product, the company's pre-existing strategy and plans and how these relate to/impinge upon the government's strategy and plans. In order to achieve agreement and subsequently encourage compliance with it, government will deploy incentives and sanctions, and the firm will need specific forms of redress should government fail to deliver its side of the bargain. Furthermore, the choice of companies to be compelled to make CPAs (in a compulsory system) or decision as to whether or not to enter into a CPA with a company (in a voluntary system) is selective. This requires the exercise of judgement at a political and/or administrative level.

Competition policy, however, as practised in the UK since 1948, is also interventionist. The only non-interventionist competition policy is either for government to abstain entirely from inter-firm relationships other than
the provision of a legal system under which contracts may be enforced regardless of the degree of concentration or foreign ownership of business, or for there to be an automatic legal prohibition of certain practices or degrees of monopoly. Since the latter is not current UK policy it will not be considered here. While still interventionist, however, competition policy is generally indiscriminate. Restrictive Practices are banned, subject to appeal on the grounds of their serving the public interest; the various Competition Acts empower the Director General of Fair Trading to intervene and propose new regulations to increase or protect free competition, indiscriminately, even though action may be taken against or for individual businesses. Consideration of mergers is the principal area of competition policy where government action - whether of not to refer a proposal for consideration by the Monopolies and Mergers Commission and whether or not to accept its recommendations if it is referred - is not indiscriminate.

Clearly, the comparison must be in terms of impact on economic efficiency. As discussed in Chapter I, there are other values than economic, and these may or may not be promoted by CPAs, but competition policy can have only indirect and incidental affect on these, if, as is the case, the argument that the only other value to be promoted is individual liberty and that economic and political freedom are indivisible, is rejected.

One objective of policy is to remove obstacles to economic growth. Given appropriate government macro-economic policy, in a mixed, predominantly
free enterprise economy, growth depends largely on the decisions of individual firms. They may be inhibited from realising their growth potential by lack of knowledge about government policy and future market conditions, deficiencies in their defences against international competition, planning consent problems and possibly difficulties in obtaining adequate labour or financial resources. Competition policy can do nothing about these. Indicative planning, concentrated at the macro or industry level has done little, because the relevant indications are not delivered and delivered convincingly at the relevant decision centre, the individual firm. The cumulative effect of years of regional policies is very small - unemployment is still much higher in the north than in the south. CPAs, however, can be a channel of support and encouragement from the government directly to the firm.

While the government's medium-term macro-economic forecasts may be useful background material in the formation of a CPA and while an exchange of views on micro, market, prospects is likely to be necessary, neither large nor medium size firms are likely to be in need of either macro or micro economic forecasts from the government nowadays. This is not because large and medium firms do not use such forecasts - the evidence of the survey discussed below is that they do - but because there is a large number of macro forecasts available (free or inexpensive) and because the government cannot claim any superior expertise in market forecasting over independent and commercial agencies.
What government can do is supply information on the aspects of its own strategies and policies relevant to the firm and show readiness to reshape them in the interests of the firm's expansion, after consideration of the firm's strategies and policies, thus enabling the firm to plan ahead with greater confidence. The government may also help by easing planning consent and, subject to constraints imposed by international agreements and laws, by providing some measure of protection. The provision by government of specialised training schemes, housing and transport facilities to increase labour mobility and skill, and government financial provision in the interests of encouraging growth by large companies would be a more striking contrast with reliance on competition and market forces. In fact, such provisions have been made to induce foreign as well as UK based multinational companies to locate in specific parts of the UK. They have been made on an ad hoc basis and with little by way of contractual arrangement. If such provision is to be made, it would be better in the form of a CPA since the obligations of all parties to it and sanctions against failure to comply by any party could be clearly and publicly set out.

This might seem to imply favouring big business against small, with more of the carrot than the stick. But this need not necessarily be so. In most cases the basic decision by an MNC to locate in one country rather than another will not be influenced by such considerations. But government may be able to negotiate details with beneficial employment, location, competitive etc effects on the national economy.
Thus far, there is some case for CPAs as a more systematic means of pursuing public policy objectives and supplementing competition policy with the aim of enhancing economic efficiency in a more selective way. Information and resource deficiencies, however, may not be the major obstacles to fuller use of resources and faster economic growth. More important may be the "institutional arthritis" (Giersch and Walter, 1983) that is a symptom of resistance to change by long-established pressure and interest groups in a relatively stagnant society. Trade unions refusing to depart from national, industry-wide, wage bargaining or countenance "strike-free" agreements, trade associations justifying pressure for more protection against foreign competition by arguing for safety standards or prevention of foreign ownership, community groups resisting development in rural areas - may all, if successful, help reduce growth below full potential.

The natural dynamism fostered by unfettered competition may be at least a partial antidote to this disease. On the other hand, such pressure and interest groups could use CPAs to advance their objectives. A firm seeking guarantees against competitive pressures may be very willing to make a CPA and its trade unions may also be pleased to participate. But a dynamic, thrusting firm might feel a CPA would cramp its style, prevent acquisitions and generally inhibit growth of turnover, employment and profit. Indeed, it seems possible that an extensive system of CPAs could lead to the development of a generally more corporist state, enhancing the economic power of the industrial establishment, with unjust redistributive effects.
Resolution of this aspect of the debate rests heavily on how the political and administrative judgements required in an inevitably selective CPA system are exercised. Are politicians and bureaucrats any more likely than business people to pursue the "public interest"? Or are they, together with trade unions and community representatives, more likely to take the public interest into account? It is now well recognised, from Public Choice analysis, that politicians and bureaucrats pursue their own individual and group interests just as shareholders, managers and trade unionists - who are more obviously economic agents - pursue theirs. Indeed it seems to have been recognised sooner by the general public than by economic policy theorists.

The primary interest that politicians pursue is election (and re-election) and thus seek to maximise votes. This may seem to impose a relatively short time horizon - at most the four or five years to the next election. In fact, however, it implies a horizon set by the electorate; and it may be that it is lengthening with healthy cynicism about "pre-election" Budgets and consumer booms. In 1979, it seemed that the swing to the Conservatives reflected dissatisfaction with short-term incomes-policy expedients to counter inflation and a desire for longer-term and more radical policies. The economic basis of the further successes of the Conservatives in 1983 and 1987 may well have been satisfaction with economic performance and prospects based on medium-term economic strategies felt by the majority of households without an unemployed member. This does, however, indicate at
best a utilitarian approach lacking in just concern for the disadvantaged.

Politicians, however, do have other interests than the primary one of election. As well as a concern for long-term recognition, "a place in the history books", they are members of parties which need, for identification and recognition an ideology or brand image which cannot be changed radically or too often without loss of credibility. This is based at least initially and at least partially on some perception of the long term public or national interest.

Bureaucrats have an interest in developing the strength of their departments, maximising departments’ budgets. This is consistent with not only an interventionist economic policy but also a selective one. Much experience, skill and detailed research is necessary, it may be argued, if ministers are to be ably advised as to which firms to select for CPAs and what features the CPAs should include. The trouble is that the departments likely to be involved in CPAs are those “sponsoring” industries and hence more likely to favour protectionist than growth-enhancing policies when there is conflict between objectives.

The conclusion drawn from this consideration of interests is that it is not clear that either politicians or bureaucrats are more likely to pursue the public interest in economic efficiency through resistance to growth-impeding interest and pressure groups than business. These are more likely to be overcome or weakened through withdrawal of intervention
in competitive processes. What can be said, however, is that if there is to be selective intervention, the public interest stands a better chance of being noticed in an explicit CPA than in ad hoc special measures.

Finally, a CPA implies that the company is being diverted to some extent from the exercise of its commercial judgement, either directly through the incentives offered or indirectly as a quid pro quo for agreement on activities beneficial to the company. Although it is not assumed that business has a monopoly of business acumen or that X-inefficiency may not be reduced as a result of scrutiny of the firm's activities in setting up a CPA, there may be costs involved in this diversion from commercial judgement. If, however, it does result in fuller use of economic resources and higher growth, then tax revenues will be greater. If the increase in revenues exceeds those costs then the diversion may be economically justified. The case is strengthened on justice grounds in so far as hitherto unemployed labour is employed. There can still, however, be other less desirable re-distributive effects.
(iv) WHICH TYPE OF CPA?

The foregoing discussion about the objectives of CPAs and the context in which they could operate points to a limited number of the types listed in Chapter IV having the potential to effectively promote justice.

At the national level, ie between national government and meso-economic companies, it would seem necessary for government to have the power to require a company to make one and for there to be at least an outline indicative plan in which to set it. If CPAs are not to be compulsory, then either companies whose actions impinge on justice will be able to escape or the incentives necessary to persuade them will be too costly. Without an outline indicative plan setting out the government's strategic objectives there will be the danger of arbitrariness and inconsistency of treatment of companies and so the policies may be over-selective. Without such a framework they will also be more prone to pressure from interest groups. While in the interests of participation and also effectiveness trade union involvement will be desirable, there may be problems over potential conflicts between national and plant/company union interests. In which case the government may also give preference to plant/company organisation of employees. Given that CPAs are to operate in a market economy, there is no reason why their introduction should be accompanied by a substantial increase in public ownership. On balance it seems that they may be alternative and more effective means towards greater accountability and participation by large-scale enterprises.
At the local level, i.e. between regional, county or district government and large or medium-sized companies, it seems neither easy nor necessary for CPAs to be compulsory. It will, however, be more necessary to gain employee and community group involvement in CPAs which, relative to national CPAs, are likely to be less concerned with economic objectives and more concerned with social aims such as offsetting or diminishing alienation in depressed inner cities.
2. Company Planning Agreements in Practice

The conclusion that CPAs with central government should be within at least a minimal indicative planning framework limits the conclusions that can be drawn from the brief experience with CPAs in Britain. Indicative planning was experimented with in the sixties; the only two CPAs were in the seventies. What can be done, however, is to form an assessment from past experience and speculation based on analysis of indirect evidence as to whether -

(i) the necessary indicative planning framework can be erected and carry conviction,

(ii) the CPAs with Chrysler and the National Coal Board would have been more effective in a fuller planning environment,

(iii) company planning is formulated in sufficient detail for CPAs to be feasible,

(iv) evidence from business behaviour indicates the competitive model is working or whether intervention is necessary on economic efficiency grounds, and,

(v) there are major discrepancies between market solutions and social objectives that CPAs might bridge effectively.
(i) THE INDICATIVE PLANNING FRAMEWORK

The sixties do not provide a satisfactory model for the content of an indicative planning framework for the eighties and nineties. In both the NEDC plan for 1961-66 and the 1964-70 National Plan the emphasis was on a rate of GDP growth which became accepted as a target. As soon as the targets, which were probably not feasible from the beginning, were generally recognised as unattainable the plans themselves were discredited. The planning framework today should be designed to make plain the government’s strategic economic objectives, in quantitative but flexible form. These should include a faster rate of growth over the next ten years or so than seems likely to occur without planned intervention in order to cut the unemployment total and reduce regional and other disparities in unemployment rates. But the overall rate of growth must be limited to what is feasible within the likely world trade and world financial environment. It must also be limited by the need to avoid a serious acceleration in inflation, with the definition of “serious” depending on the government’s judgement. The inevitable lack of precision in these two limitations makes it plain that there cannot be a unique rate of GDP growth in the indicative plan - there should be alternative scenarios - and that the overall rate of GDP growth should not be the centrepiece of the plan.

A further unhelpful feature of the plans of the sixties was emphasis on macro disaggregation of the GDP targets into the main sectors of
spending - consumption, fixed investment, exports, etc. These are generally too macro to be of direct assistance to firms in making their plans. Emphasis should rather be placed on identification of key sectors of output and employment for intervention and support towards the government's strategic objectives.

Such considerations raise political problems. It is inevitable that politicians' horizon tends to be the next election, but the timetable to realise employment objectives and structural changes is likely to spread over more than one parliament and the survey (see Appendix 1) shows that over a third of the companies using economic forecasts in long-term planning define "long-term" as over 5 years. Furthermore, the need for alternative scenarios does not lend itself to political presentation. The Government "Green Paper" HM Treasury (1982) did include 10 year forecasts but the slow rate of GDP growth shown seems to have been designed to demonstrate the constraints on public expenditure growth; if so, its purpose was negative rather than positive. What is required for publication in the present context is an attractive, even exciting strategic plan that will raise expectations, yet consist of realistic alternative scenarios. This will require economic skill in preparation and public relations skill in presentation; for both ministerial understanding and commitment is a prerequisite. It is concluded that such conditions can be met so that a strategic ten year indicative plan can be prepared and presented with conviction for use in the achievement of government economic and social objectives in conjunction with CPAs.
(ii) CPAs WITH THE NCB AND CHRYSLER

In the aftermath of the 1973/4 energy crisis the National Coal Board "Plan for Coal" was revised and made the basis of a Planning Agreement. During the 1984/5 pit strike it became the subject of debate with the National Union of Mineworkers claiming that it had been wrongly abandoned by the NCB and the Government. It was not prepared within a comprehensive indicative planning framework in that the macroeconomic assumptions were very lightly drawn but the energy market assumptions were detailed. It is very doubtful whether the market forecasts would have been more accurate had the macroeconomic assumptions been more detailed. Failure resulted rather more from the near impossibility of forecasting world and UK energy supply and demand for given levels of GNP.

The 1973 Arab/Israel War led to an Arab oil export embargo and gave the Organisation of Petroleum Exporting Countries (OPEC) the opportunity to quadruple the price of crude oil. In turn this gave the NUM greater bargaining power in a strike for higher wages in apparent breach of the Conservative Government's Incomes Policy. A General Election was held in February 1974, leading to the formation of a minority Labour Government, pledged to introduce CPAs. The strike was quickly settled, with the mineworkers gaining a substantial pay increase, and the Government set up a tripartite "Coal Industry Examination" by representatives of the Government, the NCB and the three mining unions. The NCB's Plan for Coal was accepted as a broad strategy for development.
The "Plan for Coal" (National Coal Board, 1974) presented a range of demand forecasts for 1985. At the centre of the range was a forecast that UK demand for oil and coal combined would stay at 1973/4 levels with coal increasing its share. It was further considered unlikely that there would be large tonnages of cheap (i.e., less expensive than NCB) imported coal available. Since it was expected that coal would have a price advantage over oil, it would be economic to install new coal-fired electricity generation. It was also expected that steel output and hence coking coal demand would rise. Thus it was forecast that coal demand would rise from, as stated in the Plan, 133 million tons in 1973/4 to 150 million tons in 1985. This meant that recruitment and investment in new pits would have to be stepped up.

In the event, the demand for coal has fallen in absolute terms and as a proportion of UK energy demand which also has fallen. Inland energy consumption, forecast to rise even at the pessimistic end of the range, fell from 88 billion therms in 1973 to 77 billion in 1982 and then gradually rose to 85 billion in 1986 (a better year for comparison than 1985 as in the plan because the pit strike continued into that year), still 4% down on the 1973 level. At the same time coal imports have risen to become a significant source of supply.
### Inland Energy Consumption

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<tr>
<td>Coal</td>
<td>37.4</td>
<td>32.8</td>
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<tr>
<td>Petroleum</td>
<td>46.8</td>
<td>35.6</td>
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<tr>
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<td>3.2</td>
<td>4.9</td>
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<tr>
<td>Natural Gas</td>
<td>12.6</td>
<td>24.7</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>% of total</td>
<td>100.0</td>
<td>100.0</td>
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</table>

### UK Coal Supply and Demand

<table>
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<tr>
<th>Category</th>
<th>1973</th>
<th>1986</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>130</td>
<td>105</td>
<td>-20</td>
</tr>
<tr>
<td>Imports</td>
<td>2</td>
<td>11</td>
<td>+540</td>
</tr>
<tr>
<td>Consumption, of which</td>
<td>133</td>
<td>114</td>
<td>-14</td>
</tr>
<tr>
<td>for Electricity Supply</td>
<td>77 (58%)</td>
<td>83 (72%)</td>
<td>+8</td>
</tr>
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*Source: Annual Abstract of Statistics, HMSO*
The demand forecasts went wrong, not because the macro economic environment was not forecast in sufficient detail but because of errors in anticipating the effects of an unprecedented change in oil prices. These were, first, slower growth of world production and trade as the industrialised nations, affected by a deterioration in their terms of trade, sought to counter inflation and redress their current account deficits and, second, changes in economic structure stimulated by higher energy costs and leading to lower energy requirements per unit of GNP.

The Plan for Coal forecasts, however, were endorsed by the Coal Industry Examination (1974a, 1974b) which stated that they were also in line with EEC energy proposals. Thus they formed the basis for the CPA which involved a government commitment to subsidise the NCB should there be adverse financial fluctuations resulting from short term variations in energy prices. Between 1974 and 1984 grants totalling £8,650 million had been made (NCB, 1985), but productivity had grown more slowly than planned while capital costs were higher so that over the ten years from 1972/3 operating costs per tonne rose by 50% in real terms.

The chief labour relations elements in the Plan were a substantial increase in compensation payments for pneumonicosis victims and government contributions to close a shortfall in the pension fund contributions. More important in the longer term, however, was the NUM's use of the plan with its high output forecasts to oppose pit closures.
Thus this example of a CPA shows how unhelpful rigidity can result from the best of intentions. Robinson (1974) was an early voice suggesting that the plan was over-optimistic, and Robinson and Marshall (1985) argue that a better way of coping with unpredictable energy market fluctuations is the path of liberalisation: all restrictions on coal imports should be removed and the mines privatised through establishment of management buyouts, workers’ cooperatives, sales to private companies including establishment of private coal/power station packages. Clearly this would sharpen competitive pressures and place responsibility for pit survival on local management and work forces. Would this leave unsurmountable social problems? If it led to substantial and very localised unemployment, this could threaten some of the long-established, closely-knit mining communities. If it were impossible for pits to be made viable in the new circumstances, then there would be a case for far-reaching retraining and local development policies sponsored by local authorities with central government support as necessary. Since the usual cause of a pit becoming non-viable is not lack of investment but that the coal seam has become so exhausted that further working is uneconomic, there would seem to be little scope for planning agreements with private coal companies designed to maintain employment.

The CPA with Chrysler was also conceived in the aftermath of the energy crisis. UK car demand had collapsed (see chart in Chapter IV) and Chrysler UK approached the Government in mid 1975 for regional selective
assistance to finance new model development without which some scaling-down of Chrysler's UK operations would be inevitable. Discussions were underway when, according to the Government (Department of Industry, 1977) without warning the financial crisis deepened to the point of Chrysler proposing complete closure. The Government, anxious to avoid the direct and indirect unemployment and loss to exports to Iran this would mean, then negotiated an agreement, which became the basis of a CPA, under which Chrysler would persist with its UK operations at specified plants and with specified new models in return for financial assistance. Clearly the Government was not in a strong bargaining position but was criticised by the Parliamentary Expenditure Committee (House of Commons, 1976) for not making the most of it and being too optimistic about the prospects for viability of the rescued subsidiary. The Government defended itself vigorously pointing to the very stark alternatives with which it was faced and arguing that it did not dissent from the views of the Industrial Development Advisory Board and the Central Policy Review Staff that a scaled-down or independent (ie state-owned) Chrysler UK would not be viable.

In the event the CPA was arbitrarily ended when the UK company was sold to and integrated into the French firm Peugeot. The failure of this CPA also did not arise from lack of a macro-economic framework. There were plenty of comprehensively based forecasts of the car market. But the future was clouded in much more than the usual uncertainty because of the effects of the energy crisis on the overall rate of economic growth
and on the costs of and hence the demand for motoring. What was needed was a flexible plan, firm commitment from all parties and trust between them. It was this commitment and trust that was lacking.

It is strange that over a decade later the motor industry has provided another example of planning that has ended in controversy. During the same Parliament and during the same recession as the Chrysler CPA, the Government took over almost all the capital of the British Leyland motor company to save it and the jobs of its employees and suppliers’ employees from liquidation. Initially it was not a nationalized industry (or company) as such but one of the holdings of the National Enterprise Board. The takeover was an emergency operation and successive governments have sought the right time and means to return it to the private sector. British Leyland, more recently renamed The Rover Group, was a conglomeration of once independent units of the British motor industry and privatisation has taken the form of breaking-off apparently viable units to be independent again, eg Jaguar Cars and Unipart.

The final stage was the sale of the remainder to British Aerospace (itself a privatised concern), agreed in July 1988. The terms negotiated between the government and BAE included the government paying off £800 million of debt accumulated by Rover. Such subsidies, however, require approval of the EEC Commission which must be satisfied under Community competition rules that the beneficiary is not receiving an unfair
advantage. The Commission required the write-off to be reduced by 40% and BAe to give an undertaking to carry out the detailed provisions of the British Leyland Corporate Plan agreed early in 1988. This Plan had not previously been made public. Details were revealed, however, because BAe were worried about being tied too closely to a plan to which they had not contributed. Eventually the Commission agreed that BAe could operate the plan flexibly: minor amendments could be made at will and more material departures would be considered objectively by the Commission.

Nationalised Industry Corporate Plans were one of the new features in the reform of the relationship between government and the nationalised industries envisaged in the Government 1978 White Paper. A Corporate Plan would set out the strategic plans of the industry and, once agreed with the government, provide the framework within which issues and problems arising in the interface of the industry’s operations and government economic and social policies. In some industries trade unions are consulted and may be involved in some aspects of the plan. The full plan is not normally published but the outlines are usually revealed.

Clearly there are resemblances between such corporate plans and CPAs. The Rover Plan, however, had been kept secret from the unions, the reason being that it involved a sharp reduction in capacity and employment. This was of interest to the EEC Commission, anxious to see reductions in European car production capacity as steps towards a more competitive car
market. Acceptance of these provisions by BAe was made plain when Rover told its unions in the week after the takeover terms had been finalised that two major plants were to close.

There is no suggestion that the Rover Plan lacked anything in macro-economic or market realism. Nor, unlike the Chrysler CPA, is there any suggestion of lack of trust between the parties - company and government. There was, however, lack of any third (or fourth) party involvement and in particular no attempt to build up trust in the planning process with the unions. The objectives of the Plan seem to have been exclusively market and financial. Wider economic and social objectives that might be included in a CPA would surely require union and local community representation.

On the other hand, the fears of BAe that they might be too closely tied to the Plan illustrates how reluctant companies might be to enter CPAs. It is no answer to say that they must be compelled to enter them for, as seen in the case of Chrysler, without commitment and trust the CPA will fail. A company operating in a competitive world market must be allowed to work a CPA flexibly. The BAe hesitations, however, were about a marketing and financial plan. They would have been more pronounced and could have aborted the takeover had the Plan included wideranging and inflexible social, environmental and employment-protecting provisions.
(iii) COMPANY PLANNING

However well thought out and negotiated, a CPA system cannot work unless companies are experienced in and committed to forecasting and planning with sufficient breadth and in sufficient detail. Estrin and Holmes (1982), as discussed in Chapter IV, Section 4, doubt whether they are. The prime purpose of the Survey, detailed in Appendix I, is to test the hypothesis that they are.

A questionnaire on the use of economic forecasts in planning was sent to two categories of company: 125 subscribers to a private economic forecasting service and 45 non-subscribers. The latter are large or very large companies some of whom some subscribe to other forecasting services and some do not; in no way are do they constitute a random or representative sample, but their answers provide useful information and some cross-checks on answers from the subscribers. A 67% response rate was obtained from the subscribers and 51% from non-subscribers.

Replies were received from a high proportion of the largest companies in the economy. Of the respondents, 50 indicated that their annual turnover was £500 million or more. In 1983, according to the Department of Trade and Industry (BSD, 1986) there were 133 companies with turnover of that order. Extrapolating, the number had probably risen to 150 by 1987, of which the sample would therefore account for 33%. Since they indicated considerable emphasis on forecasting and planning it is a
reasonable inference that such emphasis is to be found in very large companies generally.

Replies indicating emphasis on forecasting and planning were also received from a considerable number of companies below the largest size, which strengthens the case for believing a CPA system would be viable at the local as well as the national level. Of the replies, 37% were from companies with turnover of £100 million a year or more but less than £500 million, representing some 11% of the estimated number of companies in that size range. Another 14% had turnover of £25 million a year or more but less than £100 million. There is a limit, however: only one reply was received from a company with less than £25 million turnover.

Ways in which economic forecasts are used in planning vary but strategic planning tops the list of uses, followed closely by annual budgeting and market planning. Primarily but not exclusively in connection with the latter, micro economic forecasts are regarded as essential or very useful by almost as many firms as macro economic forecasts.

Much use of forecasts is in short-term planning, which for almost all firms is for 12 months ahead or less. Clearly, CPAs are to do with the medium or long term. Indeed, since for three-quarters of companies the medium term is no longer than three years, CPAs are more relevant to the long term, which for over half of companies is three to five years but for only one in ten it is more than 9 years ahead. This indicates that
there is interest in planning for the time scale needed for the formation and execution of a company planning agreement but that it might well be necessary to encourage firms to look more carefully at a rather longer time horizon than they are accustomed to.

Very few firms make much use of forecasts in negotiations with government; this probably reflects the present government's "hands off" policies in regard to planning.

Manufacturing firms (slightly more consumer than industrial goods producers), accounted for 50% of the total replies. This is almost exactly the same as among companies with £100 million turnover in the economy as a whole. But retailers and the financial sector were also well-represented as well as other businesses.

It is concluded the survey does provide sufficient evidence for the hypothesis that firms are committed to forecasting and planning with sufficient breadth and in sufficient detail for a CPA system. It is also the case that there is a trend towards longer term planning and planning in greater detail. This may well have been prompted by the much greater fluctuations in markets, prices and financial conditions on a world-wide basis in recent years. It seems probable therefore that the state of business planning is more attuned to the requirements of a CPA system than it was in the sixties or seventies. But it is clear that the use of private forecasts is popular and widely acceptable.
The case for intervention with CPAs rests heavily on the claim that the meso-economy is able to and does obstruct the operation of the free competitive market system. It is argued that meso-economic companies exercise the power to fix prices and they do so on a cost-plus basis regardless of competitive pressures at different stages of the business cycle. Thus because such companies are so dominant in the UK economy not only are smaller companies' costs higher than they need be but also the average rate of inflation is raised. It is possible to test this claim by studying company profits, prices and costs over several business cycles and from analysis of company accounts. The statistical analysis discussed below is detailed in Appendix II.

The first hypothesis tested is that the meso-economy succeeds in holding the company profits' share of GDP constant, regardless of GDP growth or variation in inflationary pressure. Annual data was taken from the UK National accounts for the period 1965 to 1987, thus including two severe recessions followed by recoveries and great variation in inflation. The share of total company profits, net of stock appreciation, in Gross Domestic Product has ranged from 7.6% (in 1975) to 17.1% (in 1987). It is positively correlated (correlation coefficient 0.56) with the percentage growth of GDP in constant price terms and negatively correlated (-0.75) with inflation as measured by the percentage rate of change in the GDP deflator. A linear regression of the profits share on GDP growth and
inflation had an R squared of 0.58. This indicates existence of a significant relationship between the variables. It does not preclude other influences: from 1984 to 1987, for example, profits were higher than given by the relationship, reflecting the inclusion of the profits of privatised nationalised industries. But the marked falls in the profits share during the 1975-76 and 1980-81 recessions when prices rose sharply, reflecting world commodity and UK labour cost increases, tends to refute the hypothesis. In its favour, however, it could be argued that inflation during a recession reflects in part the ability of big business to accede to, or reluctance to resist, big pay claims.

The second hypothesis is that profit margins in manufacturing will not vary cyclically with output. Annual data from 1974 to 1987 was analysed. A price/cost ratio was calculated, using the producers' output price index and a prime cost index constructed by weighting together the producers' materials and fuel input price index and the index of unit labour costs. As the chart shows, there are indeed marked cyclical movements in the price/cost ratio, but, although it has risen very much in line with output since 1980, over the period as a whole, it has a very low (0.22) correlation with output. When the two series are plotted against each other, a strange pattern emerges: there have been two not subsequently reversed upward shifts in a positive relationship - in 1975-1977 and 1981-1983. If, however, the ratio is regressed on output and two additional variables - an index of import competitiveness and a time trend - a strong relationship is calculated, with an R squared of
(The time trend is necessary to take account of the rise in the ratio over the period which since it is not consistent with profits share of GDP may reflect a statistical quirk.) The relationship suggests that a 1% rise in output raises margins by 0.3% and a 1% rise in the competitiveness of imports cuts margins by 0.3%; there is also a hint that there is a lag in the relationship when industry is emerging from recession. The inference is that competitive factors are at work so that, like the first, the hypothesis is not borne out. It is also of interest that the relationship seems to hold for the whole period, i.e., no intensification of competition is indicated.

The third piece of evidence relates to changes in the ranking of the largest companies by turnover and changes in their profitability at different stages of a business cycle. This may throw light on whether these companies, perhaps through their sheer size are able to "manage" profit levels. Company accounts are analysed by the Department of Trade and Industry. The report for 1982 (Business Statistics Office, 1987) shows that, ranked by gross trading profits, the top 66 companies, although only 0.03% of all companies, accounted for 55% of all companies' profits. At the same time, ranked by turnover, the top 133 companies, 0.05% of companies, accounted for 57% of all companies turnover. Thus, larger companies report higher profitability.

The DTI have also supplied special analyses of the top 100 companies ranked by turnover which shows their comparative performance during the
economic recovery from recession in 1982 through to 1985.

Companies Ranked by Turnover

<table>
<thead>
<tr>
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<th>Top 20</th>
<th>21-50</th>
<th>51-100</th>
<th>Top 100</th>
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<tr>
<td>1982 Turnover £ bn</td>
<td>132</td>
<td>54</td>
<td>51</td>
<td>236</td>
</tr>
<tr>
<td>GTP %</td>
<td>9.1</td>
<td>6.7</td>
<td>8.7</td>
<td>7.9</td>
</tr>
<tr>
<td>1983 Turnover £ bn</td>
<td>140</td>
<td>58</td>
<td>55</td>
<td>254</td>
</tr>
<tr>
<td>GTP %</td>
<td>8.7</td>
<td>7.7</td>
<td>8.7</td>
<td>8.4</td>
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<tr>
<td>1984 Turnover £ bn</td>
<td>160</td>
<td>64</td>
<td>60</td>
<td>285</td>
</tr>
<tr>
<td>GTP %</td>
<td>9.7</td>
<td>9.6</td>
<td>8.9</td>
<td>9.5</td>
</tr>
<tr>
<td>1985 Turnover £ bn</td>
<td>178</td>
<td>69</td>
<td>64</td>
<td>312</td>
</tr>
<tr>
<td>GTP %</td>
<td>10.4</td>
<td>10.5</td>
<td>8.8</td>
<td>10.1</td>
</tr>
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</table>

This reveals an interesting contrast between the companies comprising the second fifty and the thirty companies above them (i.e., excluding the top twenty). The reported profit margins of the thirty rose by more than 50% over the four years during which profits in the economy as a whole recovered sharply. But margins of the fifty hardly changed at all, above average for the top 100 in 1982 and finishing in 1985 below average, thus seeming more insulated from competitive pressures than larger companies.
The top twenty are left in an intermediate position, their margins recovering as the economy rose out of recession, but less steeply than the next thirty. There is not much evidence of meso-economic dominance here.

More detailed analysis of the individual companies in the top twenty, however, reveals a more complex picture. While the top four stayed in the same position throughout, 27 companies appeared in the top twenty in the four years and only 16 were there in each year. The table shows the 21 companies in the top twenty in either 1982 or 1983.

Changes in company structure through merger, divestment and privatisation caused the more marked changes in ranking, eg Grand Metropolitan, Rothmans, British Telecom (coming in at five in 1985), but it is the variations in profit that are most interesting. Three multinational oil companies feature in the top six each year: BP (accounting for a quarter of the turnover of the top twenty) with margins rising from 8% to 12%, Shell with margins consistently little more than 1% and Esso with around 30% in three years out of four. (In 1984, Texaco, ranked 14, reported a loss.) This suggests that MNCs in the competitive world oil market are able to manage the profits they report in an individual country. Some manufacturers - ICI, Unilever, GEC, Allied Lyons - and some retailers - Marks & Spencer, Tesco - were able to keep margins steady (though different from each other) while other manufacturers - Ford, BL, Thorn EMI - suffered marked variability.
<table>
<thead>
<tr>
<th>The Top Twenty Companies</th>
<th>Turnover Ranking</th>
<th>GTP as % of Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>82</td>
<td>83</td>
</tr>
<tr>
<td>BP</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Shell</td>
<td>2</td>
<td>2</td>
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<tr>
<td>BAT</td>
<td>3</td>
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</tr>
<tr>
<td>ICI</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Unilever</td>
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<td>6</td>
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<tr>
<td>Esso</td>
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<td>5</td>
</tr>
<tr>
<td>GEC</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Imperial Group</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Grand Metropolitan</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>RTZ</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>Geo. Weston Holdings</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>Ford Motor</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Rothman International</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>BL</td>
<td>14</td>
<td>24</td>
</tr>
<tr>
<td>Lonrho</td>
<td>15</td>
<td>24</td>
</tr>
<tr>
<td>SW Berisford</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Thorn EMI</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Allied Lyons</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Dalgety</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Marks &amp; Spencer</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Tesco</td>
<td>21</td>
<td>20</td>
</tr>
</tbody>
</table>
MARKET SOLUTIONS VERSUS SOCIAL OBJECTIVES

It is concluded in Part 1 of this chapter that market solutions without intervention are, in the foreseeable future, likely to leave an unacceptably large number unemployed. The recent rise in relative poverty was also noted. Insofar as planning through CPAs can improve the efficiency of resource utilisation and so enhance growth and employment/reduce poverty and insofar as CPAs can also play an educative role in making growth and growth-promoting policies more acceptable in the culture, then the function of CPAs — with either central or local government in bridging discrepancies between market solutions and social objectives has been discussed.

Planning may, however, be necessary to reach other social objectives, notably those concerned with the ecological environment. In many cases the means used can be overall legal requirements or physical ("town and country") planning without the need for intervention in individual businesses. But in others there may be doubts and uncertainties and need for discussion, negotiation, flexibility and cooperation between business and community that can well be accommodated in a CPA framework. This would be preferable to either arbitrary and less than fully-informed government action or reliance on altruism and public spirit which may be misguided on the part of business.
3. Conclusions

Changes in the economic and political environment in the fifteen years since proposals for Company Planning Agreements in Britain were first launched have not destroyed the case for them but altered the role they might play.

Limitation of macro economic intervention by government to a medium term financial strategy designed to stabilise inflation and reliance on competition to foster economic growth have accompanied seven years of uninterrupted and relatively steady expansion of Gross Domestic Product, with low and relatively stable inflation. Evidence from analysis of company profitability and changing size rankings suggests that the largest companies - Holland's meso-economy - are not able to insulate themselves from competitive pressures or exercise monopoly power as Galbraith thought they could. The competition model appears to be working better than the planning model did in the sixties and seventies and competitive pressures will be intensified in the Single European Market from 1992.

However, the public interest that government economic policy should be designed to serve does not consist in the promotion of economic growth and stable inflation alone but also encompasses justice. Rawls' concept of justice as fairness leads to a priority for the poor emphasis in economic policy - not simply to preserve social order and reduce the risks of social disruption by a disadvantaged underclass but because it springs from the
basic moral underpinning necessary for the long term survival of a free economy.

Three aspects of poverty command attention: that arising from unemployment, that arising from changes in economic structure and that in the Third World. The last seven years' expansion started from a deep recession and has left unemployment far above previous levels. Forecasts for the next five years indicate continued but slower growth that will reduce unemployment very little further. Long term unemployment particularly increases poverty and youth unemployment has both short and long term social implications. Changes in economic structure have led to an increase in low-paid employment and an increase in (at least relative) poverty. There is heightened public awareness of and feeling of responsibility for doing something to relieve poverty in the Third World.

It is not appropriate to leave responsibility for justice for the poor to the market. Baran and Sweezy rightly dismissed the concept of the soulful corporation with wide social responsibilities and correctly forecast that modern management techniques would intensify business interest in and enhance its ability to achieve economic efficiency. Government intervention is necessary.

It remains doubtful whether the government can engineer a substantial further reduction in unemployment by stimulating aggregate demand; increased inflation would be more likely to follow such a policy. Macro
economic intervention in the form of indicative planning as tried in the sixties also proved inadequate. Intervention at the business decision-making level, ie at the company not the industry level, is required. But a succession of independent, ad hoc measures to stimulate or deter is likely to increase business uncertainty, reduce confidence and possibly arouse business hostility and lack of cooperation and in consequence be ineffective. What is needed is a comprehensive, ongoing framework for intervention that does not seem likely to be reversed or abandoned as soon as political circumstances change. Company Planning Agreements might provide that.

It needs to be made clear, however, what it might be hoped to achieve by such intervention. It seems that business does operate efficiently within the cultural framework to achieve economic objectives. Medium and large as well as very large companies acquire much detailed information, eg independent macro economic and market forecasts, and use it in detailed planning. Intervention is not needed to increase business efficiency through the supply of general information and advice. Nor is it feasible to see CPAs as a tool to control the meso economy as a step towards a socialist economy and society: too much hostility, perhaps from workforces as well as management, to perceived threats to independence would be roused for them to be effective. What CPAs might do is steer corporate policy through agreement on the inclusion of specified social objectives in company plans through a combination of incentives and constraints.
Business efficiency within the cultural framework does not imply the economy is efficient overall; it cannot be with 2.5 million unemployed. Overall efficiency is inhibited by cultural factors. Pre-eminent among these are long-established distributive coalitions (Olson) resistant to change that might adversely affect their (insider) interests relative to the interests of outsiders (including the unemployed). Incentives and constraints, for new ventures in high unemployment areas and and additional perhaps lower paid labour, for example, deployed though CPAs might bring about a weakening of these distributive coalitions and so increase utilisation of labour resources.

Multinational companies present a special case of irresponsible power (not necessarily exercised irresponsibly). CPAs with them would introduce a countervailing power which could be exercised to express the growing concern for justice for the poor of the Third World. One expression of this concern could be trade liberalisation, with assistance in adjustment of their employment and trading structures in both the Third and First Worlds an inducement to cooperation by MNCs.

It is rather more doubtful whether CPAs can be used to give expression to the concern for long-term environmental issues. Although there are some general feelings of unease, this concern is so far felt strongly by no more than a small minority. There is no evidence to suppose that governments, needing re-election every four or five years, can take a longer-term view about resource depletion, for example, than business.
CPAs, however, need not be restricted to matters of economic efficiency. Feelings of powerlessness and alienation are products not only of unemployment and absolute poverty, but also of relationships with big business - as employees, customers and members of a community in which it operates. It is important that CPAs should be openly arrived at and that employees and, where practicable, community interests should be involved (with due regard for preservation of confidentiality where commercially necessary). There is here, however, the problem of preventing the interests of (insider) employees overriding those of outsiders. Furthermore, employee profit sharing and/or share ownership would seem to be more direct and effective means of inculcating the spirit of involvement.

To these ends it seems that CPAs between central government and companies should be compulsory, that is to say government should have the power to require companies above a certain to make them, although in many cases they might be very limited in scope. Although the system could not work without cooperation of management and workforce, a purely voluntary system is unlikely to have many takers, if the balance between constraints and incentives is to be fair to the smaller companies outside the system. There could, however, be voluntary CPAs between local government and companies, including smaller ones, covering local employment, land use and ecological issues of interest to the local community.
Company Planning Agreements are essentially a device through which political and business interests may be discussed and pursued. For the reasons given they would be an experiment worth trying in economic intervention without ideological presumptions. Their scope, however, is limited by what is politically and culturally possible. The danger is that they might be more successful in pursuing the narrow interests of the participants than the broader public interest. But at least such pursuit would be more open and easier to monitor in explicit CPAs than in less open deals on ad hoc measures.
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Appendix I

SURVEY OF THE USE OF FORECASTS IN COMPANY PLANNING

The idea of a survey by means of a questionnaire was prompted by the expression of doubts by Estrin and Holmes (1982) as to whether companies were sufficiently sophisticated in their planning to be able to make effective Planning Agreements. It was kept short and designed to be completed by busy executives with the minimum inconvenience and yet provide useful information for analysis. A copy, together with the accompanying letter, is included at the end of this appendix.

Initially 125 subscribers to Staniland Hall Associates' quarterly forecasts of the UK economy were mailed. Institutional, trade association and other non-trading subscribers were not included in the mailing. The quarterly forecasts include macro-economic forecasts in a world setting with a considerable degree of disaggregation into, for example, consumer spending sectors and price indices for various sectors of industry. Thus they provide micro as well as macro information. They are specifically designed for business planners and market forecasters but the financial data included is of interest to financial executives while the direct and terse style makes them accessible at board level.

A 66% response rate was achieved without need for a reminder. All the replies were usable, even though not all respondents answered every question.

Secondly, 45 other large companies who do not subscribe to these particular services were mailed; a 51%, entirely usable, response was obtained from them.

Question 1

All but 3% of the respondents affirmed that their organisation used economic forecasts in planning. Those 3% included one that did not use structured forecasts but acknowledged the impact of forecasts that had been read in the decision-making process.

Question 2

A majority (61%) prepare "in-house" forecasts to use in conjunction with or to supplement "bought-in" forecasts. Thus 39% rely entirely on external sources of forecasts. Just 3% use their own resources only.
Question 3

For each of the 9 activities there were some respondents who regarded economic forecasts as essential. Few mentioned other uses. Micro forecasts were rated as only a little less useful than macro ones.

The answers were analysed by use of a five point scale giving "essential" a score of 5 and "not used" a score of 1. (Where no box was ticked, a score of 1 was ascribed.

USE OF ECONOMIC FORECASTS

<table>
<thead>
<tr>
<th>Activity</th>
<th>&quot;Essential&quot; or &quot;Very Useful&quot;</th>
<th>Mean score</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>59</td>
<td>3.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Budget</td>
<td>63</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Market planning</td>
<td>55</td>
<td>3.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Branch consistency</td>
<td>38</td>
<td>3.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Investment</td>
<td>24</td>
<td>2.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Pricing</td>
<td>24</td>
<td>2.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Diversification</td>
<td>22</td>
<td>2.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Manpower</td>
<td>17</td>
<td>2.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Government</td>
<td>8</td>
<td>1.6</td>
<td>1.0</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>0.3</td>
<td>1.0</td>
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</tbody>
</table>

Type

<table>
<thead>
<tr>
<th>Macro</th>
<th>64</th>
<th>3.7</th>
<th>1.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>53</td>
<td>3.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Correlations between the answers were weak, even for high scoring questions like "long or short-term corporate strategy" and "market planning" with a correlation coefficient of only 0.6. This suggests a considerable degree of individuality in companies; forecasts are important in different companies for different reasons.

Correlations between answers to use questions:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy/Investment</td>
<td>0.47</td>
</tr>
<tr>
<td>Strategy/Market plan</td>
<td>0.61</td>
</tr>
<tr>
<td>Strategy/Budget</td>
<td>0.56</td>
</tr>
<tr>
<td>Market plan/Pricing</td>
<td>0.19</td>
</tr>
<tr>
<td>Branch consistency/Diversification</td>
<td>0.36</td>
</tr>
</tbody>
</table>
Question 4

There is considerable variation in the length of planning periods, particularly in definition of "short term". The percentages below exclude "no answer".

<table>
<thead>
<tr>
<th>Planning Period</th>
<th>Less than 1 year</th>
<th>1 year</th>
<th>Longer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term</td>
<td>32%</td>
<td>65%</td>
<td>3%</td>
</tr>
<tr>
<td>Medium term</td>
<td>1 to 3 years</td>
<td>4 to 6 years</td>
<td>Longer</td>
</tr>
<tr>
<td></td>
<td>78%</td>
<td>22%</td>
<td>0%</td>
</tr>
<tr>
<td>Long term</td>
<td>3 to 5 years</td>
<td>5 to 9 years</td>
<td>Longer</td>
</tr>
<tr>
<td></td>
<td>56%</td>
<td>33%</td>
<td>11%</td>
</tr>
</tbody>
</table>

There was a weak positive correlation (0.31) between the importance of forecasts in market planning and the length of the short-term. There was a rather stronger (0.61) correlation between use in strategic planning and length of the long-term.

Question 5

Only 17% of respondents made additional comments. These included amplification of replies to other questions. There were also references to increasing reliance on and greater frequency of forecasting and a trend towards the need for more micro detail.

Question 6

It is clear that forecasts are not only used by very large firms. Although only 1% of respondents have turnover of less than £25 million, 11% are in the £25m-£100m bracket and 33% in the £100m-£500m bracket, leaving 35% in the £500 and over (excluding the 5% who did not answer this question). The bias in the sample does not invalidate this conclusion. Few replies were received from firms that have substantial overseas operations or are subsidiaries of overseas companies.
Question 7

There was a variety of areas of business represented.

<table>
<thead>
<tr>
<th>Area</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods manufacture</td>
<td>30</td>
</tr>
<tr>
<td>Industrial goods manufacture</td>
<td>24</td>
</tr>
<tr>
<td>Retailing</td>
<td>23</td>
</tr>
<tr>
<td>Finance</td>
<td>10</td>
</tr>
<tr>
<td>Other business</td>
<td>23</td>
</tr>
<tr>
<td>No answer</td>
<td>1</td>
</tr>
</tbody>
</table>

The percentages add to 110 because some companies operate in more than one sector.

Question 8

68% of respondents were willing to have their reply followed up. Not surprisingly most respondents were planners or marketing executives.

<table>
<thead>
<tr>
<th>Position</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate planning etc</td>
<td>34</td>
</tr>
<tr>
<td>Marketing, market research etc</td>
<td>34</td>
</tr>
<tr>
<td>Finance</td>
<td>11</td>
</tr>
<tr>
<td>Economist</td>
<td>9</td>
</tr>
<tr>
<td>Chief Executive etc</td>
<td>4</td>
</tr>
<tr>
<td>No answer</td>
<td>8</td>
</tr>
</tbody>
</table>

100%
In addition to my work with Staniland Hall Associates, I am writing a thesis on Planning for an M.Phil. degree of the University of Surrey (with which Southlands College of the Roehampton Institute of Higher Education is associated). I would be grateful if you could assist me in my research by completing the attached questionnaire on the use of economic forecasts in your business. Returns will, of course, be treated in strict confidence. You will see that replies can be anonymous but, if you are willing, I would appreciate the opportunity to make a further follow-up call.

I intend to prepare a summary, which should be of interest to all users of forecasts, for circulation to known respondents.

A FREEPOST envelope for your reply is enclosed.

Thanking you in anticipation of your co-operation.

Yours sincerely,

Richard J. Hall

x seen by me alone
CONFIDENTIAL

Questionnaire on the Use of Economic Forecasts in Planning

Please tick appropriate box.

1. Does your organisation use economic forecasts in planning?

   Yes □   No □

   (If "no", please complete the details in 6, 7 and 8, and return.)

2. (If yes to 1), source of economic forecasts used:

   in house □   bought-in □   both □

3. Use of economic forecasts:

   Activity                         Essential Very General Consistent assumptions for
                                           useful Background branch/subsidiary plan
   Long/medium term strategy  □ □ □ □ □
   Investment appraisal          □ □ □ □ □
   Market planning               □ □ □ □ □
   Manpower planning             □ □ □ □ □
   Pricing policy                □ □ □ □ □
   Annual Budget                 □ □ □ □ □
   Negotiation with Central/Local Government □ □ □ □ □
   Other (specify) ......... □ □ □ □ □

4. For planning purposes, do you define

   short-term as less than 1 year? □ □ □ □ □
   medium-term as 1 to 3 years? □ □ □ □ □
   long-term as 3 to 5 years? □ □ □ □ □
   4 to 6 years? □ □ □ □ □
   5 to 9 years? □ □ □ □ □
   longer? □ □ □ □ □

5. Please add here any comments on forecasting and/or planning you would like to make

   ................................................................................................................
   ................................................................................................................
   ................................................................................................................

(Continued overleaf)
6. Size of Organisation in terms of annual turnover (group total for companies registered in the U.K.; U.K. operations of subsidiaries of overseas registered companies):

<table>
<thead>
<tr>
<th>£500m and over</th>
<th>£100m and less than £500m</th>
<th>£25m and less than £100m</th>
<th>Less than £25m</th>
</tr>
</thead>
</table>

U.K. registered companies:

Overseas operations as % of group turnover

<table>
<thead>
<tr>
<th>Over 50</th>
<th>25 - 50</th>
<th>10 - 25</th>
<th>Under 10</th>
</tr>
</thead>
</table>

Overseas registered companies:

% of turnover in U.K.

7. Classification of business (more than a third of turnover):

- Consumer goods manufacture
- Industrial goods manufacture
- Retailing
- Finance
- Other business
- Non-trading

8. Name of Organisation *

Name of Respondent *

Position

Phone

You may follow up my reply Yes No

* May be withheld if desired

Please return (FREEPOST envelope enclosed) to:

Business Studies Department,
FREEPOST,
Southlands College,
65, Parkside,
London.
SW19 5NN.
Appendix II

STATISTICAL ANALYSIS OF COMPANY PROFITS

1. Profits, GDP growth and inflation

The Data:

<table>
<thead>
<tr>
<th>Year</th>
<th>P: Company profits as % of GDP</th>
<th>q: GDP % growth</th>
<th>d: GDP deflator % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1965</td>
<td>14.3</td>
<td>3.0</td>
<td>4.9</td>
</tr>
<tr>
<td>1966</td>
<td>13.0</td>
<td>1.6</td>
<td>4.2</td>
</tr>
<tr>
<td>1967</td>
<td>13.0</td>
<td>2.2</td>
<td>2.7</td>
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<tr>
<td>1968</td>
<td>12.7</td>
<td>4.2</td>
<td>3.5</td>
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<tr>
<td>1969</td>
<td>12.8</td>
<td>2.5</td>
<td>3.4</td>
</tr>
<tr>
<td>1970</td>
<td>11.8</td>
<td>1.9</td>
<td>7.8</td>
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<tr>
<td>1971</td>
<td>12.7</td>
<td>1.5</td>
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<td>1972</td>
<td>12.6</td>
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<td>1973</td>
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<td>7.7</td>
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<tr>
<td>1974</td>
<td>8.5</td>
<td>-1.7</td>
<td>17.0</td>
</tr>
<tr>
<td>1975</td>
<td>7.6</td>
<td>-1.0</td>
<td>27.3</td>
</tr>
<tr>
<td>1976</td>
<td>8.3</td>
<td>2.7</td>
<td>14.5</td>
</tr>
<tr>
<td>1977</td>
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*P* Gross trading profits, after deduction of stock appreciation

*g* Gross domestic product, average estimate, at constant prices

*d* Alternatively known as the implied index of home costs


Correlations:

\[ r_{p,q} = 0.561 \quad r_{p,d} = -0.754 \]

Regression:

\[ p = 14.63 + 0.168q - 0.254d \quad (R^2 = 0.583) \]

\[ (0.202) \quad (0.074) \]

( ) = standard error
2. Margins in manufacturing

The Data:

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</table>

Indices 1980 = 100:

- p: ratio of home sales prices (DTI) to index of prime costs
- m: CSO index
- c: CSO index lagged one year
- t: time trend = 1 in 1974

Regression:

\[ p = 96.38 + 1.267t + 0.285m - 0.337c \]

\[ (0.121) \quad (0.114) \quad (0.134) \]

\( R^2 = 0.92 \)

\( (\quad) = \text{standard errors} \)