2: Britain in the world economy

Labour's alternative to more Thatcherite adrenalin

THE POLITICS

WHILE there are as many opinions about Britain's economic record as there are economists to express them (see below), all parties are agreed on four points. First, Britain's international competitiveness leaves much room for improvement. Secondly, sharpening our industries' ability to take on global competition is the key to long-term prosperity. Thirdly, industry can prosper in the long run only in an atmosphere of macroeconomic stability, low inflation and sound public finance (issues to be discussed in a future election guide). Finally, competitiveness depends on a sensible exchange rate.

This last point of agreement is new and important. In the past few weeks both Kenneth Clarke and Gordon Brown have started worry-

aloud about the damage wreaked on Britain's manufactures and exports by an overly strong pound. To see the importance of this issue for competitiveness a few figures suffice.

In 1995 Britain's average wage costs in manufacturing were \$20.96 per hour, less than half the \$45.52 in western Germany. But Britain's advantage over other countries was much smaller: total costs in France were only 38 per cent higher than in Britain. Thus the 15 per cent rise of the pound against the franc since 1995 has already wiped out half Britain's cost advantage. In fact at today's exchange rates, average wages in Britain are above the levels in France, Italy and much of Europe. Workers in Britain remain relatively cheap to employ only because of the high continental

other "social charges" (see chart). Beyond the growing consensus on the macroeconomic aspects of industrial competitiveness, there is little on which the two main parties agree. The Tories insist that Britain is well on its way to becoming the "enterprise centre of Europe", as evidenced by our rapidly falling unemployment and the preference of Far Eastern, American and even German companies for siting their

level of social security taxes and

competitive is a further injection of Thatcherite adrenalin: more competition, more privatisation, less regulation, less trade unionism, less government spending and further tax cuts when public finances permit.

The Labour view could not be

35.54 35.48

19.80

\$45.52

factories here. They say all that is

needed to make Britain even more

more different. Labour claims to have accepted many of the reforms of the 1980s and says it would impose an even tougher competition policy to spread the benefits of economic growth to smaller companies, but its approach starts from the opposite analysis of Britain's economic position. According to Labour, British industry is still in dire trouble and losing out in world markets: companies do not invest enough; they rely on cheaper labour instead of better skills; managers are preoccupied with financial engineering and shareholders with short-term profits; workers are poorly motivated.

Labour believes that the way to halt Britain's relative decline and

HOW BRITAIN COMPARES IN LABOUR COSTS

Hourly costs in manufacturing industry in 1995 (US dollars)

boost it into the first division of world economies is to create a highly trained, highly productive and well rewarded workforce. This can be achieved only through a new kind of partnership between government, management, the City, the educational system and, of course, the workers.

Labour proposes four broad sets of policies to achieve this. First it emphasises education and training, with three specific ideas for industrial training. A new University for Industry, modelled on the Open University, would enable workers to acquire occupational skills. Employers would receive incentives to spend a proportion of their revenues on in-house training or industry-wide schemes. And training would be made compulsory for the long-term unemployed.

KEY

Non-wage labour

costs, including social

security, pensions and

TOTAL LABOUR COSTS

fringe benefits

Wages

Labour says these commitments would be fully funded by proceeds from the privatised utilities' wind-

A second set of Labour proposals

would try to promote higher investment and a longer-term management thinking. Gordon Brown has considered numerous proposals to make the tax system more conducive to long-term investment. There has also been much discussion about making directors responsible to all the "stakeholders" in a business, including workers, suppliers, customers and wider society. Labour leaders realise, however, that these ideas are unpopular with businesses and have avoided making any commitments on either corporate taxes or company law.

The third element of Labour's

competitiveness package — social and employment policy — is even less clearly defined. Labour has promised to sign the social chapter and to introduce a minimum wage. The Tories say these would badly damage Britain's competitiveness, but Labour claims they would force companies to become more productive, by forging stronger bonds with employees, encouraging long-

term planning and training. Whether these supposed advantages would offset the additional costs and inflexibilities entailed by the minimum wage and the social chapter is a question that nobody can answer for certain. But the evidence from international experience does not seem to be on Labour's side.

Leading article, page 23

Decline has halted, but growth is Still Slow

THERE are many ways to measure a country's economic performance, which is why politicians can make wildly conflicting claims about Britain's place in the world withbattleground so far has been over unemployment rates, livinternational competitiveness "leagues" drawn up by some of the world's leading economic think-tanks.

ures are at least easy for laymen to understand. British unemployment, which was 6.7 per cent of the labour force in December, has been falling sharply for three years and is now much lower than in any major European country, a clear plus for the Tories. Unfortunately the jobless rate is also far higher than it was when the Tories came to power in May 1979 (when it was 4.1 per cent) and higher even than when John Major became Prime Minister (6 per cent). In fact, taking the 18 Tory years as a whole, Britain has done no better in job creation than Germany, France or Italy, with employmere 0.04 per cent a year.

The Tories retort that millions of the workers made redundant in the early 1980s were doing subsidised, unproductive jobs in hopelessly inefficient state industries. At least the jobs today are genuinely productive, in industries that can hold their own in competitive world markets. One way to test this claim is to look at Britain's output growth, both in historic terms and in relation to other countries. Unfortunately such efforts quickly run up against Mark Twain's famous comment about "lies, damned lies and statistics".

Labour took the argument to the Tories a year ago with full-page newspaper advertisements claiming that Brit-

THE RECORD

thirteenth to eighteenth place in the "World Prosperity League". Labour based its out falling foul of the truth in rankings on figures for gross advertising laws. The main domestic product per head compiled by the Organisation for Economic Co-operation ing standards and the various and Development. It rubbed salt in the Tories' wounds by noting that this league table was the one used by the Government in its own annual On unemployment, the fig-competitiveness reports.

The Government cried foul, noting that Labour had doctored the OECD table, which actually put Britain in sixteenth place, by adding Singapore and Hong Kong. Labour retorted that this amendment had been given credibility by the World Economic Forum (WEF), a private think-tank based in Geneva, which tries to combine dozens of different indicators, ranging from government statistics to surveys of business opinion, to produce an annual Global Competitiveness Report. Singapore and Hong Kong were included in this report. But embarrassingly for Labour, Britain received a *higher* overall ranking in the WEF table than Germany, Italy or France.

The Tories also point out that these league tables are extremely sensitive to exchange rate assumptions. To allow for differences in living costs, the OECD statisticians estimate so-called purchasing power parity exchange rates, which in theory equalise the cost of living across all countries. Because of the uncertainties in making such estimates, small changes in relative position mean very little. For example, the reported gap in GDP per capita between Britain and Germany is 10 per cent. This is not much greater than the margin for error in estimating "purchasing power parity" exchange rates, and much less than the movement

exchange rate in the past year

Laying aside such statistical quibbles, one fact is indisputable: Britain's steady decline relative to other advanced industrial countries broadly been arrested in the past 20 years. Among the 25 current OECD countries Britain fell from first place in terms of GDP per capita in 1900 to fifteenth in 1975. Since then the inexorable decline has more or less stopped. If some leagues since then or, more importantly, to lose market share in world exports, this has been because of the remarkable emergence of a handful of Asian "tiger" economies, not because Britain has underperformed its European and North American peers.

Such statistical subtleties are hard to convey to the public, so the Tories are trying to move the debate away from what has undoubtedly proved fertile ground for Labour. To prove its contention that Britain has been on the up and up since the early 1980s, the Government marshals an array of alternative evidence.

The main device is to com-

only with the rest of Europe. Britain has recently been doing much better than France and Germany on almost all statistical measures. Britain has grown by an average of 2.7 per cent a year since 1993, compared with a miserable 1.1 per cent in Germany and 1.3 per cent in France. Yet Labour can quite legitimately argue that may simply reflect a temporary recovery from the 1990-92 recession, which was much deeper in Britain than abroad. Looking at the whole Tory period since 1979, Britain's average growth rate of 1.9 per cent has been identical to that in France and slightly below Germany's 2.0 per cent. Labour also points out that the 1.9 per cent growth rate in Britain from 1979 to 1996 was actually the weakest growth performance achieved by Britain in any 18-year period since

he Second World War. The explanation of the paradox is simple. Britain is doing well now and did well in the mid-1980s, but these two periods of rapid growth were each preceded by horrific recessions — slumps far worse than those suffered by the rest of the world. As a result, Britain's overall performance has been ain had dropped from in the actual sterling/mark pare Britain's performance only average. As for the excep-

tional instability of the British economy during the period, this can either be viewed as evidence of Tory mismanagement, or as a healthy case of "creative destruction", wiping out inefficient outdated industries and replacing them with businesses which can survive in a competitive world.

To support the latter view, the Government points to a sea-change in British productivity under its leadership. During the 1970s, Britain's manufacturing productivity grew at a third of the rate of Japan and half the rate of France or Germany. But since 1980, productivity has grown twice as fast as in Japan and France and almost three times the German rate.

Labour is swift to reply that productivity improvements of the 1980s did not produce industrial expansion, but merely reflected the mass shedding of workers. Higher efficiency can only increase international competitiveness and living standards if it results in expanding output and that requires companies to invest. In terms of investment per worker, Labour contends that Britain now comes twelfth out of 15 EU economies. Independent observers

generally agree that industrial investment in Britain remains too low, but even on this point the Tories can cite opposing statistics. By excluding construction (which has always been much lower in Britain than the rest of Europe) it can be shown that investment in Britain's business sector has been similar to that in America, Italy and France and only

slightly behind Germany. So what is the result of this head-swivelling statistical tennis match? The figures show that 18 years of Tory rule have broadly halted Britain's long relative decline. But they also reveal that the British economy has grown no faster than it did in the pre-Thatcher period.

The Tories would claim, of course, that their economic reforms could only be expected to pay off in the long term and that Britain is just beginning to enjoy the full benefits of low inflation, free enterprise, deregulation and competitive markets. Implicitly, at least, Tony Blair seems to agree. He has, after all, promised not to undo any of the main economic reforms of the Tory period.

> **Next Monday:** constitutional reform

THE POLITICIANS

MICHAEL HESELTINE **Age:** 63

Education: Shrewsbury School, Pembroke College Oxford (MA in PPE).

Experience: Self-made businessman, founder and chairman of Haymarket Press. Various ministerial posts since 1970, mainly in trade and industry. Deputy Prime Minister with responsibility for competitive-

ness policies since 1995. Politics: Always a toughtalking opponent of socialism, though sometimes branded by Thatcherites as a "wet". Earned nickname of "Tarzan" by brandishing



Age: 46

Education: Kirkcaldy High School, Edinburgh University (MA and PhD in history).

Experience: Academic and later a TV current affairs journalist. Senior Shadow economic posts since 1987. Shadow Chancellor since

Politics: Convinced that key to competitiveness and rising living standards is education and training — hence the government's role. Opponent of old Labour class strugglers, but has read more Marx and Engels



Speaker's mace to try to deter Labour's 1976 nationalisations. Candidate for greatest Tory Prime Minister who never was.



than they. Close to Tony Blair, but was also a leadership hopeful. Candidate for greatest Labour Prime Minister who never will be.

WHAT THEY SAID

The only people who could doubt the health, strength and breadth of this recovery are either mad, dead, or the Labour benches

Chancellor — Oct 1996

Kenneth Clarke's portrayal of the economy is like an upbeat report from a football manager trying to avoid the sack Gordon Brown, Shadow

Chancellor — Oct 1996

The Government say we are the enterprise centre of Europe. The reality is that we are in the bottom half, the poorer half, of Europe Gordon Brown — Oct 1996

Do you seriously want to be prosperous? Because this

The Conservatives have run out of ideas, can't escape their record and are terrified of losing. That is why they have become so negative. The Labour Party have

can't escape their history

and are terrified of not

abandoned

is what we are making you

Kenneth Clarke — Nov 1996

their ideas,

winning. That is why they have become so timid Paddy Ashdown — Dec 1996 We now have the best economy of any country in Western Europe, not just this year, but . . . next year and the year after that. Can people see that? They can.

Will they want to throw it away? They will not John Major — Jan 1997

GDP PER HEAD

UK ranking out of 25

OECD countries

1900 - 1995

CONSERVATIVES



Economic stability: Continue the new monetary framework set up by Norman Lamont after the £ left ERM in 1992. Key components are an explicit target for underlying inflation at 2.5 per cent or less, and publication of minutes of monthly monetary meetings with Bank of England. Reduce public spending to 40 per cent of GDP by 1997-98, making £7 billion of further cuts over next three years.

Eliminate public sector borrowing requirement by 2000. Social policy: Fiercely opposed to a minimum wage and will fight to preserve opt-out from the social chapter.

Regulation: Reform the Restrictive Trade Practices Act to ban cartels and anti-competitive agreements unless benefits can be shown. Strengthen power of Office of Fair Trading to investigate monopolies.

Small business: Continue with deregulation drive to lessen burden on small firms. Continue cutting marginal tax rates to allow them to keep more profits, reducing the small companies corporation tax in line with income tax. Requires government departments to abide by the CBI prompt payers code and support a draft British Standard for prompt payment but has ruled out a statutory right to late payment.

Unemployment and training: Promote job creation through flexible working practices and growing economy. Explore phased withdrawal of benefits to encourage people to return to work with "earnings top-up" scheme. Encourage work experience for long-term unemployed. Expand vocational qualifications. Expand modern apprenticeships scheme to improve in-job vocational training.

LABOUR-



Economic stability: Introduce a medium-term growth strategy with inflation and trend growth targets. Consult on reforming Bank of England, establishing monetary policy committee to be overseen by a representative court and ensuring that government and Bank economic policymaking is more accountable. On fiscal policy, Labour is committed

invest. The level of government spending to GDP to be kept stable over the life of a Parliament. Social policy: Implement a national minimum wage to be set by a Low Pay Commission with union and employer

representatives. Sign the European Union social chapter. Regulation: Provide competition authorities with powers to root out restrictive practices and impose financial penalties by taking a "prohibitive" approach to competition law. Possibly introduce panel of non-executives to work with utility regulators and change basis of price caps to a profits basis. End self-regulation for financial services with Securities and Investments Board to police directly the 1986 Financial Services Act.

Small business: Code of practice on late payment with public agencies paying within 30 days and a legal right for small firms to receive interest on late payments.

Unemployment and training: Introduce a rebate for taking on long-term unemployed. Every 18 to 25-year-old out of work to be offered a job or training. Short-term job creation includes phased release of capital receipts for housing projects. Create University for Industry to provide training and introduce "learn as you earn" accounts.



Economic stability: Reconstitute the Bank of England as a UK reserve bank with operational independence and a legal responsibility to check inflation. Sign up for European monetary union. On fiscal policy, would separate capital from current expenditure and ensure that borrowing was used only to finance capital

Social policy: Establish a low pay commission to recommend a regionally and age-varied minimum hourly wage and reverse the opt-out from the

Regulation: Establish a single office of utility regulation to impose tighter controls on profits. Combine the Monopolies and Mergers Commission with the Office of Fair Trading in a new body, independent of government, and introduce the right of businesses affected by monopoly positions to begin MMC proceedings. Introduce a new restrictive trade practices Act, a revised financial services Act and an updated banking Act to improve regulation and

Small business: Introduce capital allowances for investments up to £200,000. Make interest payable on late debt payments and reform the insolvency laws to encourage

Unemployment and training: Reduce employer national insurance contributions and introduce a benefit transfer scheme for long-term unemployed. Require employers to release workers under 19 for a minimum of two days' training a week and introduce a training entitlement for adults.

LIBERAL DEMOCRATS



social chapter. protect consumers.

more use of administration and mediation.

THE FACTS

☐ The UK was the world's most prosperous country in 1900. Since then its position has fallen, but this decline stabilised about ten years ago. Out of the 25 countries in the present OECD, Britain's GDP per head was 3rd in 1950, 15th in 1975, 18th in 1990 and 16th in 1995.

☐ Britain is the favourite location for international investment in Europe. In 1994 Britain received 40 per cent of Japanese investment in the EU and 43 per cent of US investment. ☐ Average wages for man-

ufacturing workers in Britain are higher than in Italy, about the same as in France, but only 60 per cent those Germany. The total costs of employing a worker are

to a contraction of the contract **EMPLOYMENT** Total civilian (Jan 79 = 100) TIVAL TO A FRANCE

much lower in Britain than in any of these countries because of lower social security taxes, pensions costs

and other fringe benefits. ☐ The pound has fallen against most other currencies since 1949, but not in the past 20 years. A pound is worth exactly the same today in US dollars as it was in January 1977. It has strengthened since then against the French franc. Italian lira and Canadian dollar, but weakened against the yen and mark.

Unemployment has fallen sharply in Britain since 1993, but is still almost twice as high as it was in 1979. Total job creation over the past 18 years has been no higher than in Germany, France and Italy.

"Decline has halted, but growth is still slow." Times, 27 Jan. 1997, p. 6. The Times Digital Archive, https://link.gale.com/apps/doc/IF0500828623/TTDA?u=west85252&sid=TTDA&xid=a95cc487. Accessed 22 July 2020.