
“Prosperity and Justice — the Challenge of Modern Socialism”

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George Square, Edinburgh

It is a particular honour as well as a special pleasure to be invited to give the Eighth of the John Mackintosh Memorial Lectures. I had the privilege of serving in the Commons with John for a good part of his Parliamentary career, and like most who came in contact with him, I owe him a debt of gratitude for the constant intellectual stimulus and infectious enthusiasm which he radiated and from which I and others derived incalculable benefit. I never had the pleasure of being one of his students, but being a history student at Glasgow University at a time when he was in the full vigour of his teaching years in this University, I had intimation of the massive inspirational effect he had on a generation of young people when I first met him at a joint reading party of the Honours history classes of the two Universities held at the Scottish Universities' residential establishment at the Burn in Angus. He was a specially gifted teacher as well as a distinguished Parliamentarian, and of course, he combined his two talents and enthusiasms in his authoritative works on the machinery and practice of government which will I am sure, for many years to come, remain essential reading for succeeding generations of students.

The idea of having an annual lecture in his memory is particularly appropriate and one of which he would have approved, not least because of the obligation an invitation would put on the lecturer, particularly if he or she were a politician, to attempt the public articulation of their ideas or aspirations in something akin to an intellectual format. He would reason that whatever it did to the audience, it might do some good to the performer.

He was always insistent that political debate and discussion should centre on the broad sweep of events and ideas, rather than dissipate itself in the byways of specialism, and it is in that spirit that I have chosen my subject.

I wish to argue the case that prosperity, broadly defined as a steadily increasing standard of living in an efficient and productive economy, is not only consistent with a socially just and caring society, but that in an intelligently organised community, prosperity and social justice mutually reinforce each other.

For almost three decades after the Second World War — in what historians may describe as the Era of Full Employment — most Western democracies regarded the

maintenance of full employment as not only the obligatory duty of civilised government, but as an indispensable part of a successful economic arrangement. The purchasing power of the employed, for example, was one of the essential mainsprings of demand in the economy. What was socially necessary was rightly also regarded as economically sound. In those times, if it had been predicted that in the late 1980s Britain would have well over three million unemployed and that the then right wing government would advertise its economy as successful, disbelief would have been profound.

The fact, of course, is that unhappily the Era of Full Employment came to an end somewhere about 1973 or 1974. Consequent upon that, the Right, having acquired some different intellectual adornment and presenting itself as the New Right, seized an opportunity to argue that it was the burden of social justice, the size of the public sector, the amount of public expenditure, which caused the motor to unwind.

I believe that all along many of the conservative forces had secretly grudged the post-war concessions. Wisely perhaps, the Conservative Party, under the late Lord Butler's guiding hand, had conceded ground. Indeed, for a while they were prepared to compete in social provision. Witness the then Mr. Harold MacMillan's well publicised drive to build one million council houses. They were most probably divided between those who regarded the concessions as desirable and others who conceded them only because there seemed no alternative in a society in which the Welfare State was manifestly popular.

But by the 1970s, when the post war expansion was petering out, the radical right were quick to pounce. In the United States and in Britain, new theories were propounded and old theorists like Hayek were intellectually disinterred. In 1975, Mrs. Thatcher captured the Conservative Party and subsequently the Government, and by 1980, Ronald Reagan had become President of the United States. The Right were less bold in other parts of Western Europe where more scepticism existed — and still exists — about their nostrums. Essentially the argument was that events had proved the intervention of the State in the organisation of the economy to be harmful and in particular, the Welfare State created a major drag on the efficiency of the economy. Indeed, the greater the cost of welfare, the greater the loss of efficiency. The end of the Era of Full Employment came about, they said, because it could not be sustained. What was needed was the rolling back of the State and the reassertion of the influence of unrestrained market forces.

If they were correct in their proposition that economic efficiency and social justice had been proved to be mutually inconsistent, it was a powerful argument. By dint of shrewdly presented polemic and well-financed publicity, the conservative forces pressed their argument home. Some powerful economic forces and some very well-heeled people had a strong vested interest in it being pursued.

I believe to the contrary that their analysis was fundamentally flawed, that the product of their theories had been disastrous; that at bottom, it was no more than a counter-attack by the forces of wealth and privilege to recapture the spoils which they felt they had been obliged to share for too long and that their theories offer no acceptable way forward.

In the first place, I do not believe that, as the Right argue, growth faltered because of the burden of public expenditure, or labour bargaining power, or redistribution. I think a sounder analysis reveals that the causes were multiple and complex. The economic spending boom generated by the Second World War and the consequent imaginative reconstruction programmes, by European economic integration, by mass consumer spending and the automobile age, petered out. The process was accompanied by a disintegration of the world economic system as the Bretton Woods Agreement failed to stick. The OPEC price hike and the huge transfer of resources which it involved, came at a moment when the Western economies were in any case weak. The massive OPEC price increases were but one manifestation of a period of high commodity prices which have been replaced in the 1980s by a period of very low commodity prices, a factor which seems to me to have more to do with the comparatively lower rates of inflation than anything else. And, of course, greatly increased global competition took its toll as Japan and other Far Eastern countries captured more of formerly captive markets. Saturated consumer spending on the demand side, and heightened competition on the supply side are far more likely causes of the economic stagnation than the theories of the new Right.

But even if the analysis were superficial, has the application of the new approach led to success? As J. K. Galbraith once noted, Britain was to become a laboratory and since 1979 we have seen the application to the British economy of these theories expounded and practised by Mrs Thatcher. She started, of course, with an enormous advantage not possessed by any previous British government — the abundance of North Sea oil and gas. The preceding Labour government did a very great deal to ensure that by 1980 Britain was self-sufficient in oil production. This meant that the succeeding government was given an unprecedented freedom from balance of trade and balance of payments constraints which had so often in the past bedevilled successful economic management. While most of our industrial competitors had to wrestle, at least for a few years, with the high cost of imported oil, Britain had a breathing space and in addition received revenues from North Sea oil which were at their peak running at between £12 to £13 billion annually. The enormous advantage conferred on the Thatcher administration by this bounty has been sedulously underplayed by economic and political commentators favourable to the government and, of course, by her own highly effective publicity machine, but it is a fact which, for all the attempt to obscure, is of undeniable and cardinal importance. Indeed, I argue that the failure of the Right is the greater in that they started the experiment with a unique and unprecedented advantage.

Of course, it will be said that the price of oil did not stay high and that eventually it halved in value, although it is still worth £6 billion per annum. By this time, the Thatcher government had however discovered another technique for replenishing the national coffers — the asset stripping of publicly owned industries. In this way substantial sums are raised and combined with some curiosities of public accounting, are very effective in tiding us over in the short term. Of course, the assets are no longer there, nor will the dividend and profit which they produce be available for the future, but as I will have occasion to observe later, in a slightly different context, there is little concern with the long term. Sufficient to say for this purpose that anyone can have an apparently successful sale (if speedy disposal is the objective) if he sells below value and the replacement of cash for assets does not add to the economic wealth or benefit the nation.

Despite the enormous benefit of North Sea oil and gas, and the temporary boost of asset sales, the record of economic management under Mrs Thatcher's administration can hardly be regarded as a convincing demonstration that we have found a new road to economic success. We have returned in the 1980s to the mass unemployment of the 1930s from which, for decades after the Second World War, we thought we had permanently escaped. Over £20 billion of scarce resources is diverted each year to pay the real cost of underwriting mass unemployment. The cost in human misery and lost personal opportunity is even greater. Since 1979, twenty per cent of our industrial capacity has disappeared, industrial output is still four per cent lower, and industrial investment — the essential seedcorn of the future — is still seventeen per cent lower. The North South divide — which Mrs. Thatcher pretends not to exist — is the most acute it has ever been. It now divides Britain on a line between the Severn and the Wash. If two visitors from outer space were to land simultaneously, but in different parts of Britain, and to meet up a few weeks later to compare notes on what they had discovered, the report from South Shields would be so different from that from Surrey, that it would be concluded that they had not, in fact, been in the same country. The recent health survey, which fortunately was not suppressed as was intended, revealed from another standpoint the acute difference in services and opportunity which are tolerated in what we once thought was one nation. Perhaps the most alarming feature of our present economic situation is that in 1983, for the first time in modern history, we slipped into a balance of trade deficit in manufactured goods. From then, it has deteriorated so sharply that it was almost £6 billion in 1966 and it is predicted by the government itself to reach £8 billion by the end of 1987. Bearing in mind that manufacturing industry is our crucial wealth creator and an indispensable element in enabling Britain to pay its way in the world, the record of Mrs. Thatcher's economic management is as dismal as it is alarming. That is the stark truth behind a temporary consumer spending boom fuelled by unrestricted credit which, however convenient politically in the short run in creating an atmosphere of synthetic prosperity, will rebound to our

severe disbenefit, particularly in the acceleration of the imports of manufactured goods.

Even if they are, in fact, wrong in their historical analysis and can hardly point to a record of success in tackling the ills of our society or of our economy, the new Right have to be recognised as possessing a breathtaking sense of audacity and opportunism. Monetarism was for long the very ark of the temple. When finally its absurdities could no longer be ignored, it was quietly abandoned without even a word of apology for the grave damage it had done to British industry. A popular press largely owned by beneficiaries of their policies is, and no doubt will continue to be, an obliging megaphone for their propaganda. Nor are they restrained by notions of civility or tolerance. Mrs. Thatcher does not want to defeat her opponents: in her arrogance, she aims to "bury socialism". Thus it behoves the Left to recognise the character of its opposition by arguing our case with a sense of robustness and determination. Not that we want to "bury" opposing ideas or new proposals. That is not a language to be encouraged in a civilised democratic society. We must win by the open and honest argument appropriate to a free and tolerant democracy.

In that spirit, let me contest their two crucial propositions, namely that social justice achieved through community responsibility and spending is a drag on — or even incompatible with — economic efficiency, that the government should intervene only marginally, if at all, in the organisation of the economy, because market forces will lead to the best allocation of resources and to the creation of the only sustainable dynamic for the economy.

Let me deal first with the question of full employment which, on any view, must be a fundamental objective of a socially just society. There is no question that it has ceased to be, even if it ever was, an aspiration of the Thatcher administration. Year after year, even modest steps such as moderate public construction programmes, well within even the economic parameters set for itself by the government, have been ruthlessly eschewed. It is no longer credible for government apologists to claim, as they once did, that their opponents should give them at least the credit of caring about unemployment. No one who cared could have missed so many opportunities for remedial action. The truth is, is it not, that there is seen to be some advantage in a pool of unemployment: it keeps the workers in check, makes them less ambitious for better wages and conditions, keeps them demoralised, and of course, it causes more problems for trade unions than all the restrictive laws rolled into one and doubled in intensity.

I hope I do not need to persuade many about the essential immorality of such a policy. Over forty years ago, Beveridge argued with clarity and conviction that full employment was the centrepiece of social citizenship. In rejecting the *laissez faire* idea that slack in the labour markets was a desirable condition, he said that the labour market "should always be a seller's market rather than a buyer's market. The

reason is that difficulty in selling labour has consequences of a different order of harmfulness from those associated with difficulty in buying labour. A person who has difficulty in buying the labour that he needs suffers inconvenience or reduction of profits. A person who cannot sell his labour is, in effect, told that he is of no use. The first difficulty causes annoyance or less. The other is a personal catastrophe".

He would be astonished if he were with us now to find that unemployment at its present level was tolerated, or that over £20 billion was drained from our public resources to finance it.

But leaving aside the moral question, what on earth is the economic advantage of unemployment viewed from the viewpoint of society as a whole? I see in the millions of unemployed, not just personal catastrophe, but unused and untapped energy and talent. I see every week in my own constituency the cost of unemployment in our welfare and social services, as well as in the lives of the good people I have the privilege to represent. But I also see a shocking economic waste, and I ask myself continuously what kind of economic theory is it that resolutely refuses to pay to get people into work, but pays them, (albeit at low levels) not to work. It is not that there is not work to be done. In the Labour Party's programme "New Jobs for Britain" we identify four areas of action. A package for economic enterprise through stimulating investment in manufacturing, particularly in the regions, and cutting National Insurance contributions on a regionally differentiated basis, can create 250,000 jobs, principally in the private sector. A capital investment plan designed to revive the housing programme, improve the transport infrastructure, and reverse the inner city rundown, can create 250,000 jobs in both public and private sectors. An expansion of our caring services, in health, personal social services, education, and other areas can create 300,000 jobs principally in the public sector.

Finally, a national training programme converting the current piecemeal schemes into a coherent strategy for returning skills, particularly to our young people, can produce 360,000 jobs and training places. All this is work which desperately needs to be done to meet real deficiencies in society. It will provide an impetus of demand in the supplying industries. It is clearly affordable. The net annual cost in each year of its two year course would be £6 billion, precisely the sum available to a Chancellor who chose instead to cut 2p off the basic rate of income tax and to reduce public sector borrowing to below 1% of GDP at a time when because of the new sources of credit which finance the present consumer spending spree, private borrowing has reached 10 per cent of GDP. So let it not be said it cannot be done. It can be done in precisely the ways we have outlined at the costs which we have calculated. And surely it makes sense in strictly economic terms, let alone in terms of moral aspiration or social balance or elementary justice, to tackle work which needs to be done by people who need to do it. Keynes was, of course, driven to distraction by the refusal of the inter-war governments to tackle unemployment on economic grounds.

He said, "Pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of classic economics stands in the way of something better". In an attempt to find a wholly absurd human activity which drove home his point, he outlined his now celebrated scheme. "If the Treasury were to fill old bottles with bank notes, bury them at suitable depths in disused coal mines which are then filled up, top the surface with town rubbish, and leave it to private enterprise on well tried principles of *laissez faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note bearing territory) there need be no more unemployment, and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like: but if there are political and practical difficulties in the way of this, the above would be better than nothing".

In our society there is work in abundance waiting to be done: what is lacking is the political will to authorise it. But let it not be said in this case that social justice does not complement and reinforce real economic benefit.

Or take the National Health Service. Does it operate to our economic disadvantage? One would have thought that universal access to a good system of health care, irrespective of individual wealth or position, was not only the sine qua non of a civilised society, but a clearly demonstrable economic benefit. We know, of course, that it would not have happened had not a Labour Government created it. Although the Right are careful not to attack it too explicitly because it is so deeply rooted in the affections and interest of the vast majority of the population, they would never have created it. It is a sense of survival rather than of belief which forces Mrs. Thatcher on to the political back foot to claim that the NHS is safe with her. Yet we know, do we not, that her belief is in a two-tier provision with an expanding private sector which will inevitably lead to different standards of health care apportioned according to the ability to purchase them. They are already clear enough signs of such a system developing. In the United States, whose arrangements in these matters Mrs. Thatcher usually finds attractive, they hardly run a more efficient and more economically beneficial system. I read with astonishment, in a recent book by ex-President Nixon, two lines which told me how appallingly inefficient what he called socialised medicine was in Britain.

The facts are as follows. In Britain where universal health cover is provided, we spend 6.2% of our GDP on health. In the United States where cover is far from universal (in Harlem for example there are 80 registered physicians for a population of more than a million) the proportion is 10.8%. On a very conservative OECD calculation of the relative costs of administration, in the UK these amount to 2.6% of total spend, while in the United States they are 5.3%. There is other evidence that they are higher, but even on a cautious basis the US private system even when

non-universal costs twice as much to administer. In our private sector, the cost of administration for BUPA is 10% and a further 6% is spent on what are called administrative systems. So I do not think we need accept any arguments from those who would undermine our Health Service that they would create a more economically efficient way of providing a basic and essential provision. Health has to be paid for whether it is provided by one route or the other. The essential question is one of social and political, not economic choice. But in our case, it looks as if the economics are on the side of the Health Service as well.

I would argue that these are practical rebuttals of the new Right's case in two important areas. However, I want to deal directly with one of their most central — and in my opinion, most erroneous — propositions. It is the notion that inequality is necessary as a dynamic of economic activity. Without the lure of riches or the fear of poverty, economies, they say, do not progress. Albeit, it might be a fairly despairing conclusion for society, they say it is a fact of life and claim the support of human nature. George Gilder, one of the American apologists put it thus — "the poor most of all need the spur of their own poverty".

Now I doubt if I want economic prosperity in which the supporting engine is driven by a haunting fear of poverty or a dread of illness, or by the amassing of large concentrations of wealth and consequent power. But I need not face the dilemma because none exists. This is not an economic theory: it is the re-articulation of political and social prejudices convenient to the rich and powerful and spread on their behalf by their apologists.

In the first place, they do not act upon the theory themselves. If it were true, why do they deny their succeeding generations the incentive and the spur of need by bequeathing fortunes which guarantee a life of comfort without effort? If it were remotely true, should they not be in the van of those urging the most swingeing of inheritance taxes?

Secondly, the rich are not, in fact, against welfare provision. They may be against public provision on a universal basis to the community. But they are strongly in favour of a private welfare state for themselves.

In the United States, and also increasingly in Britain, private health care systems, elaborate pension arrangements, and private education are all provided, often through tax deductible systems involving what amounts to a public subsidy. Not for them the spur of insecurity. And if it is not needed to give incentive to the powerful and successful, how does its effects somehow become curiously remedial when applied to others?

The new Right, and Milton Friedman in particular, have even argued that the inequalities of *laissez faire* are truly more egalitarian because they will lead to more growth and greater prosperity for all. The sociologist, Philip Green described this

aptly as "the homage that vice self-confidently pays to virtue". Or, as R. H. Tawney, who got most things right, put it "the argument is that the wealth of the few is the indispensable safeguard for the modest comfort of the many, who, if they understood their own interests, would not harass the rich with surtaxes and death duties, but would cherish and protect them".

But in Britain, in the last eight years when a major redistribution in favour of the rich has undoubtedly taken place, where is the evidence of its beneficial effects on the economy? It seems that a great deal of the money must have been invested in other economies: some of it has probably been spent in accumulating apparently desirable semi-royal jewellery: the bulk has probably gone in simply increasing the standard of living of the wealthy. With investment in industry still seventeen per cent below 1979, it is not obvious that conferring largesse on the rich leads to immediate practical investment where the nation requires it. And, of course, as we all know, the institutional investors who invest the pension contributions and savings of the wider community are a far more powerful motor of investment than all the rich could ever be.

The Swedes have shown the fallacy of the new Right argument that the non-rich must live in neurotic fear of failure to provide an incentive to effort. They provide positive evidence that social justice and economic efficiency can be achieved together. But in our own history is there not adequate negative evidence that their disjunction leads to failure? There are unhappy parallels between the 1980s and the 1920s and 1930s. What does the new Right now propose which was not tried then? The cruel society of the means test was not one of economic efficiency. Surely there was more to the great depression than the so-called failure of the unemployed to look for work. Surely the 1920s was more than just a decade of workers' misperceptions about job availability. And what was achieved by way of economic success by the cuts in the meagre support then offered to the casualties of their theories? So much of the new right is the old right once again — no more than "cauld kale het up". Bunk then, and bunk now. We need not, and should not, for one moment abandon our belief in the just and decent society because those who dislike it on political grounds fallaciously argue that it is economically beyond our reach.

So I reject the argument that this sort of inequality is a necessary condition of economic success. What I find revealing is that while we have to offer incentives to the better off, we are urged to place disincentives in the way of the poor. They face a marginal rate of loss on increases in income in our present shambolic system of social security which would make the rich quail. And I ask if we are building an incentive society, what incentives there are in modern Britain for the unemployed if no amount of effort on their part can create jobs, or for the poor, if no amount of work will ease their poverty? In the belief that the beneficial economic effects of large tax reductions for the upper income groups could be proved to have an

incentive effective, Chancellor Lawson commissioned Professor Brown to study the matter. The results were so inconclusive — and therefore non-supportive — that we hear no further reference to it.

So let us not accept for one moment the first proposition of the new Right that we require to tolerate injustice or inequality in the name of economic efficiency.

The second major thrust of the new Right is that economies prosper when the government takes a passive role in the wealth creation process and leaves the necessary dynamic to the supposed magic of unrestrained market forces.

After eight years of the Thatcher experiment, not only do we have the economic waste of unemployment, we have an industrial economy which is smaller, receives less investment, produces less output, and has the most adverse — and deteriorating — balance of trade in our modern economic history. Even worse, perhaps, the technological base of British industry is disturbingly weak. We simply are not developing the new products and processes which can alone pioneer new industries for the future and modernise existing industries in a way which will make them internationally competitive. But it is not in my opinion enough to point to the failure of Thatcherism. Democratic socialists today must put the achievement of the successful economy as high on their list of priorities as their other objectives. Indeed, it is my argument that it is the essential prerequisite and guarantor of the achievement and maintenance of the society which is socially just and individual enhancing. When Tony Crosland wrote "The Future of Socialism" in 1956, during the Era of Full Employment, he assumed that growth was assured because of technological progress alone. He was regrettably profoundly wrong, although it is fair to say he lived to recognise his error and he was not at that time assailed by critics of either left or right who fastened on the faults in his premise. In those more confident times, it was more easily believed that problems of economic management were subordinate to the issues of political or social choice. Now we know better. What is more, I think we can now see that so far as Britain's industry was concerned the 1950s and 1960s were decades of dangerous complacency. It was an illusion. It was then that British industry comfortably enjoying markets not yet challenged by the other countries of Western Europe or the Far East failed to modernise itself or prepare for the future. It was an error in which management and trade unions and all political parties participated. The demise of our motorcycle industry, through the appalling complacency of those who managed it, was not seen as the harbinger of future events.

We know better now, not perhaps because we are more percipient, but because the elephant is in our front garden. Our lack of competitiveness is abundantly demonstrated in our relentless relative decline. The restoration of our industrial economy must be a key objective because it so manifestly needs to be done and without that occurring all our plans for social progress simply could not be sustained.

There is, however, another reason apart from sheer necessity. I believe profoundly that the fairer distribution of wealth and income in our community in which I passionately believe as the way to create a more just and genuinely more free society, can only be successfully achieved in a democratic society on a rising curve of economic progress and prosperity. It may be theoretically possible to redistribute on a declining curve or in a static state. My own political judgment, deeply held, is that it is politically impossible in a democratic society. If evidence were needed of the fundamental truth of this proposition, we need only look at the corrosive effects of the reverse redistribution which the Thatcher government has effected in our present circumstance.

I argue therefore that if we truly wish the better society, we must on the Left, give more attention than in the past to the business of growth, of efficiency, of economic progress. We must be prepared to be engaged in a positive sum game in which a greater cake is created, the more equitable division of which can be more effectively achieved. That is why the clear emphasis which the Labour Party has placed on the politics of production, and on our plans to rebuild Britain's industrial strength is manifestly correct. This generation of democratic socialists accepts the challenge to build the economy which is technologically advanced, which is based on high productivity which is internationally competitive, and which above all plans ahead.

How is that to be done? It is here that I join battle with enthusiasm with those on the Right who believe that the only way is through unrestricted market forces and that the role of the State is minor.

If there is one obvious characteristic of our present economic situation it is that reliance on these beliefs leads inevitably to an appalling concentration on short term action and results. Let us take two crucial areas for our industry, namely education and training and research and development. It cannot be denied that we have become woefully weak in both. Perhaps we have never had the best system of industrial training in Britain, but whatever it was, it has systematically been destroyed since 1979.

Sixteen out of twenty-three industrial training boards dismembered, 29 skill centres closed down, and technical apprenticeships halved. The collapse of training particularly in engineering has been stunning in its speed and its extent. When our economy expands, it will immediately run into massive skill shortages in a potential labour force which has become de-skilled. Similarly, in research and development, we have taken appalling risks. Of the five leading industrial nations (USA, Britain, France, Germany and Japan) Britain devotes the smallest share of its GDP to civil research and development. Both public and private investment in civil research and development have actually diminished since 1981. I need not catalogue the mournful table of statistics: most objective observers would agree that, in recent years, Britain has an unbelievably bad record in these two vital areas.

The effect in terms of international competitiveness can best be demonstrated by comparing the output of the average British and German industrial worker. The German produces twice as much. That is not because he works harder or longer. Indeed, in the German engineering industry they have just agreed on the shortest working week in Europe. It is because the German worker has at his elbow twice the technological capability, and he is twice as well trained.

Why has this trend of recent years come about? I believe it can be shown to flow directly from the decision of the government to withdraw from responsibility in both these areas and to leave them to the caprice of voluntarism.

Sore British companies, of course, do take their responsibilities seriously and realise the basic importance for their own future of careful and intensive training and of new product development through research and development. The overall situation is regrettably not such. And if we examine the reasons, I think we can see why. Individual companies, particularly the smaller ones, worry that if they spend resources on training, the investment may be recouped not by themselves, but by competitors who poach their employees. Smaller companies worry about expenditure on research and development, the benefits of which are necessarily long term and the cost of which usually has to come out of current surplus, if the initial impact is to reduce the short term profit leading to a market judgment that the share price should fall and often open the door to the acquisitive predator. At the same time as the public expenditure on research and development through the universities, colleges, and research organisations is being reduced, there exists no fiscal incentive through the taxation system — and precious little direct government financial support for investment by companies themselves. So we see in dramatic form how the abandonment of government responsibility is not compensated by voluntarism or the market. Indeed, the latter often accentuates the deficiency.

The same process is, I believe, at work in the investment mechanism. Investment institutions which exist to provide retirement pensions should by their very nature be long term. After all, their purpose is surely to provide pensions thirty or forty years into the future. Yet they compete for market approval on the basis of a quarterly analysis of their performance, in which every incentive exists for them to secure short term gains which advertise the comparative skills of their managers. Thus the market forces the long term to become the short term.

The whole process is accentuated when the government withdraws from responsibility for the proper supervision and control of takeovers and mergers. Despite a wider range of statutory powers available to it, the present government has imprisoned itself in its own decision to apply exclusively competition criteria. Thus it permits a merger mania to flourish despite the lack of evidence that larger conglomerates perform more efficiently, encourages a dangerous short term profit-taking mentality in institutions and others, and fails lamentably to secure the

application of proper criteria about the effect of take-overs on the shape and effectiveness of our industry, let alone the interests of employees. Notably our principal industrial competitors do not indulge in such irresponsibility.

So I argue that present evidence does not support the view that the withdrawal of government responsibility and abdication to the unrestrained forces of the market leads to the development of long-term and secure investment in industry, to adequate research and development, or even elementary education and training. It is sobering to reflect that seventy-five per cent of Britain's industrial workforce receives no proper training at all.

That is why we argue with force and conviction the counter case: that our industry and our wealth-creating capacity can only recover if the government accepts responsibility for that recovery. That is why we propose three engines of growth — a new approach to investment, a new commitment to research and development, and a new start for education and training.

We propose to establish the British Investment Bank to provide a new source of finance for industry. Britain is almost unique among Western industrialised countries in having no state bank charged with the responsibility of supplying capital to industry. The Japanese established one in 1902. In Germany, the Kreditanstalt für Wiederaufbau (KfW) has played a vital role in providing finance to assist structural adjustment, encouraging the export of capital goods and in assisting specific financing problems of small and medium sized firms. France has the Credit National which, although not state owned, works closely with the French government which subsidises its loans. The KfW and the Credit National each financed investment valued at more than £1 billion in 1986. As a crucial part of the process of rebuilding a competitive industry in Britain, the British Investment Bank will be charged with the responsibility of providing capital on favourable terms designed to suit the long term needs of industry and targeted in the pursuit of the strategic goals of industrial policy. We hope to start at long last a tradition of industrial banking in Britain in which the private sector banks and financial institutions can also play a positive part.

We intend a profound and long lasting commitment to research and development with particular emphasis on new product development. As a nation, we simply have no alternative choice. Manufactured imports into Britain have grown fastest in the high research intensity and high value added sectors of industry. These now account for 45% of our imports and the level of import penetration, in the high research intensity sectors, has almost doubled in the last few years. To correct this ominous trend, we need a commitment of public expenditure through our public institutions and positive incentives to industry which the present stance of fiscal neutrality in corporate taxation policy prohibits. Not a day goes by without evidence of more prominent scientists leaving our shores. Indeed, Sir John Harvey-Jones, the

recently retired Chairman of ICI, foresaw the possibility of ICI moving essential parts of its high technology operations out of the UK because of the present failure of policy. A brain drain of our scientists and engineers was predicted by the Right if high taxation policies were pursued: it is in fact occurring because of low levels of public expenditure. Our high class scientists do not in any event earn the salaries which would propel them into the highest tax brackets: that is the privilege of the financiers and the new wealthy of the City. Most of our scientists leave because they are discouraged or prevented from carrying out the research which is the motivating factor in their lives. Sometime soon, Britain must harness our great inventiveness as a nation and our success in pioneering brilliant new scientific advances in the pursuit of our industrial recovery. As part of that process, and to help take Britain forward in high technology sectors and in the industrial application of research, we intend to create British Enterprise, a new state company which will have the capacity to initiate new ventures either on its own or through joint ventures, or by facilitating company development. Neither Celltech, our leading biotechnology company, nor Inmos, our only and mainly innovative, silicon chip producer, would exist but for an initiative by the now dismembered NEB. We intend to use British Enterprise flexibly and creatively to lead or to support, as the case may be, but always to take British industry forward.

We ought also, as a matter of urgency, to form the ambition to create the best educated and trained workforce in Western Europe, defining workforce properly as everyone from the process worker to the managing director. The industrial economies of the 1990s and even more so in the next century will compete with each other essentially on the skills of their people. Above all, that is why education and training must be a central responsibility of any intelligent government and why it simply cannot be abandoned to some notion of voluntarism or the market.

These forces for growth require to be co-ordinated in an industrial strategy for Britain. We intend to formulate that strategy through a partnership of government, management and trade unions in a revived National Economic Development Organisation in which those who work in our industry will, on the basis of their experience and commitment, help set the goals and achieve the targets. We do not believe that government itself can find all the answers, nor that it should seek to attempt to do so. It can, however, provide the leadership to help the active participants in our industry to undertake the task. With their help, we can identify the areas of vital strategic importance where Britain must develop its strength and then set about the task of building that strength. I take as one illustrative example, the information technology industries. In this so called sunrise sector, we are already in serious deficit in our balance of trade and our expansion is relatively slower than our competitors to a dangerous extent. Professor Ashworth, the Principal of Salford University, and an ex-Chief Scientific Adviser to the Cabinet

Office, chaired in one of the Little Neddies a group of businessmen, experts, academics, and trade unionists who produced a plan for recovery in information technology. The Ashworth Report is today gathering dust on a shelf in the DTI because the government do not think it is their business to intervene. But surely the government has an unavoidable responsibility to lead the devising of an industrial strategy for our nation. That is why in implementing the national strategy we intend to establish through a greatly strengthened Department of Trade and Industry a powerhouse force for the real economy which will give leadership and accept responsibility for action.

Since an efficient industrial policy requires the mobilisation of all our resources, an effective regional policy must be a key component of the strategy. Under this government, regional industrial policy has been effectively abandoned and we have seen how market forces have accentuated and deepened the North/South divide. What is left of regional policy is seen as an instrument of social policy, a half-hearted palliative for the effects of decline. We intend, through the DTI and the Scottish Welsh Offices, to initiate a new policy for the regions and nations of Britain which enables them to rebuild their indigenous strength, not just to secure local prosperity, but as an indispensable part of the national recovery. The emphasis will be on regional and national initiative using a range of incentives to ensure that the engines of growth operate effectively throughout the country. John Mackintosh would certainly have approved of the positive role we plan for the contribution by the Scottish Assembly.

We believe that if we do not plan for success, we shall not succeed. But it is crucial that the planning is strategic and selective. The role of government in all the areas I have described is essentially developmental in the context of a mixed economy in which public and private sectors pull together in a positive sum game. There is abundant room for individual initiative and effort. Indeed I believe more room can be created for its effective expression and success. The small engineering company, for example, prepared to go to the limits of high technology to win for itself and for Britain, has everything to gain from our vision of the future. At each stage, whether it is in investment or research and development or education and training, it has the potential of active and supportive assistance from a government which shares its ambitions for success in a competitive world. Too often at present it is denied not only essential support and encouragement at home and abroad, but faces the threat of a hostile acquisition if it dares to go beyond the short-term limits of the present system.

The fundamental weakness of the unrestrained market system is, I believe, that it chronically fails to secure the long term. Whatever else Adam Smith's hidden hand can achieve, there is precious little evidence that it is enough on its own to chart a successful future for our country. There has to be a gathering together of the

potentially dynamic forces in a strategic way if our essential industrial renaissance is to be achieved and that involves the acceptance of responsibility for leadership in that task by the government which we elect. In the same sense, we will not achieve social justice and opportunity for all our people if we stand aside from the responsibility and expect it to happen by some fortuitous circumstance. There are crucial interconnections achieved when a government is prepared to accept the challenge of achieving both prosperity and justice. Good education and training available to all who can benefit from them is not only a life enhancing opportunity for personal development and achievement, but in modern age an indispensable element in an intelligent economic policy. Tawney once eloquently observed that the task was to enable ordinary people to achieve their extraordinary potential.

I well understand that it all requires great effort and even greater skill: that all aspirations are more easily articulated than achieved: that there will, in the future as in the past, be many obstacles in apathy, in enmity, in lack of imagination.

But I believe, as I know John Mackintosh did, in democratic optimism, in our capacity as a nation to set our own objectives for the society in which we live, and to set about achieving them in a spirit of resolute determination. Neither our democracy, nor our aspirations for all its citizens need be thwarted by the power of the forces ranged against us nor by the implausible arguments to which they resort.

We are in the Labour Movement, guided by the high and ennobling principles of democratic socialism. Each generation must find its own way in the circumstances of its own time to give them practical effect. I believe that the challenge to us is to create the society which is productive and prosperous, but which shares its wealth with a sense of justice in the knowledge that that is not only a better way, but a more secure foundation. It is a challenge which can be met with confidence and with optimism.