

January 25, 1984

BRITAIN'S INDUSTRIAL POLICY: VALUABLE LESSONS FOR THE U.S.

INTRODUCTION

Many of the major developments in American domestic economic policy over at least the past half century seem to have been copied from actions in the United Kingdom. Where Britain has led, America has often followed. The pump-priming New Deal Keynesianism and the more full-fledged Keynesian policies of the Kennedy-Johnson years, for instance, were foreshadowed by the Keynesian revolution in the U.K. The wage-price guidelines of the Kennedy-Johnson period and the incomes policy control and phases of the Nixon Presidency were preceded by innumerable British experiments, dating back to 1948.

This pattern is once again being repeated. Over the past year many influential American voices have called for a national industrial policy for the United States.¹ The analyses of these American advocates of industrial policy are based, implicitly, on one of two presuppositions. Some seem to think they are proposing radically new policy initiatives, as yet untried elsewhere. Others suggest that the adoption of selected industrial policies has been the foundation underlying the postwar economic success of Japan.

The latter supposition is in general quite untrue. While postwar Japanese governments have experimented with some selective targeting of industries, this has generally been of a low-key nature and not aimed at Japanese manufacturing.² The hallmark of

¹ These proposals are outlined and examined by R. B. McKenzie, "National Industrial Policy: An Overview of the Debate," Heritage Foundation Background No. 275, July 12, 1983.

² For a detailed debunking of the Western mythology surrounding Japanese industrial and trade policies, see K. Sakoh, "Industrial Policy: The Super Myth of Japan's Super Success," Heritage Foundation Asian Studies Center Background No. 3, July 13, 1983; and G. C. Allen, How Japan Competes (London: Institute of Economic Affairs, 1978), Hobart Paper 81.

postwar Japanese policy toward industry instead has been the provision of a general (as against selective) policy climate (through low government spending and taxation) that was conducive to industry, entrepreneurship, innovation, and investment.

More important, U.S. policymakers and citizens should recognize that the recent industrial policy proposals for America have for long been preached, and endlessly experimented with in practice, in Britain--well before attention was given to the Japanese model. All of the "new" buzzwords of industrial policy--adjustment assistance to "sunset" industries, financial assistance to promote new "sunrise" industries and technologies, the establishment of tripartite (business, union, and government) councils to improve cooperation, and many others--have been heard and enacted in Britain over the past 30 years. Even industrial policy advocate Felix Rohatyn's recently unveiled idea for a "social compact" between management, government, and unions turns out to be a hand-me-down from the Labor government of the late 1970s--a compact which in reality gave a free rein to the unions. There is nothing new about the "new" debate on national industrial policy in the U.S. It is all old hat in Britain.

The British experiences with industrial policy thus are valuable lessons about the probable effects of an industrial policy in the U.S.³ Advocates of such an approach can take little comfort from the British track record. Far from bringing about an industrial rebirth, it has led to expensive but unsuccessful bailouts, the creation of losers out of one-time winners, spectacular high-tech projects that are also spectacular money losers, and an erosion of business freedom. Perhaps worst of all, the British experience shows that the process may well be irreversible.

BRITISH INDUSTRIAL POLICY IN THE POSTWAR ERA

Industrial policy is centuries old in Britain. The Navigation Acts of 1651 and 1660 provided English merchant ships with a monopoly of imperial trade, and such discriminatory British economic policies were an important factor leading to the revolt of Britain's North American colonies.

Under the shadow of 20th century world depression, Britain again adopted a protectionist commercial policy between the two World Wars after a century of free trade. Additionally, the government began to support certain sectors of industry. This support was supposed to encourage industry to rationalize by

³ For more extensive discussions; see J. Burton, The Job-Support Machine: A Critique of the Subsidy Morass (London: Center for Policy Studies, 1979); and J. Burton, Picking Losers: The Political Economy of Industrial Policy (London: Institute of Economic Affairs, 1983), Hobart Paper No. 99.

amalgamation and eliminate "competitive waste," to close inefficient firms, and to improve the industrial structure.

But protective tariffs, far from regenerating the economy, "encouraged resources to flow to the least dynamic sectors of British industry, and so slowed down the shift from the 'old' to the 'new' by distorting the allocation of resources."⁴ The measures did little to effect economic recovery--indeed they hindered it.⁵

Neither did industrial support bring forth a regeneration of industry. Rationalization promoted by government led most often to restrictions on the entry of new firms into an industry and price fixing within it. "Industrialists... were probably keener to accept the subsidies, restrict competition, and fix prices, than to reduce capacity."⁶ Economic revival did eventually come, but it owed nothing to such government measures. The recovery was based primarily on newly emerging industries, not on industries restructured with government aid.

The most immediate impact on industry of the Labor Government of 1945 was the state takeover, or "nationalization," of many basic industries, including coal, electricity, gas, railways and canals, civil aviation, overseas cable and wireless, and the Bank of England (iron and steel were brought under state ownership in 1951 under the second postwar Labor Government). This experiment in state ownership of the "commanding heights of the economy" has proved to be an unmitigated and expensive disaster for the British taxpayer. Over the period 1945 to 1979, government subsidies to the nationalized industries have totaled approximately \$45 billion (at 1979 prices). Nationalization as an industrial policy has proved to be merely an excuse to run large parts of the economy as if these industries were a sheltered workshop for politically powerful workers. New financial "disciplines" on the nationalized industries laid down by Parliament--in 1961, 1967, and 1978 in particular--have failed miserably to bring about improved financial performance.

Efforts by the Conservative government of the early 1950s to return state industries to private hands proved politically ineffective and short-lived. Indeed, the pace of government involvement accelerated in the 1950s and 1960s. Even Conservative administrations found themselves unable to untangle the network of aid and controls.

Government subsidy schemes toward industry multiplied and changed at a dizzying rate. It is no exaggeration to say that

⁴ F. Capi, "Protectionism--No Solution to De-Industrialization," Economic Affairs, October 1983, p. 24.

⁵ F. Capi, Depression and Protectionism (London: Allen and Unwin, 1983).

⁶ A. Skuse and R. James-Owen, Government Intervention and Industrial Policy (London: Center for Policy Studies, 1979).

by the mid-1970s British industrial policy had become a subsidy morass.⁷ Nor, with the exception of some "touches of the tiller" of industrial policy, has this situation changed fundamentally since Mrs. Thatcher came to power in 1979. Britain provides an important and salutary case study in the apparently irreversible and suffocating effects of industrial policy.

INDUSTRIAL POLICY IN THE 1960s

The Lure of National Planning

In 1962 the Conservative government sought to achieve higher growth by the establishment of a new institution, the National Economic Development Council. This NEDC was supposed to harness government and "both sides of industry" and to take responsibility for the provision of long-term plans and forecasts.

A comparison between the targets set out in NEDC reports and the actual course of the economy indicate that the tripartite council failed totally to achieve its targets. "Between 1961 and 1966 total output rose by 2.9 percent a year, compared with the NEDC target of 4 percent. Productivity appeared to grow no faster than in the previous five years...manufacturing investment grew by 0.2 percent a year, compared with the target of 3.3 percent."⁸

Despite the lackluster results of such indicative planning, the incoming Labor government of 1964 was inspired to intensify the experiment by establishing a new Department of Economic Affairs (DEA) with responsibility for overall medium and long-term indicative planning. Eleven months later, the DEA produced a National Plan, which was "a mixture of forecast, feasibility study, policy directive, industrial targetry and a dissertation on the economic facts of life."⁹ The NEDC target of 4 percent a year growth was replaced by one of 25 percent growth over 1964-1970 (about 3.8 percent a year). Again, the theory was that, by indicating the beneficial implications of higher growth, the higher growth could somehow be achieved. The basic assumption, as before, was that the growth rate could be "talked up."

In July 1966 the National Plan was abandoned in the wake of a sterling crisis; but it is difficult to see that much could have come of it in any event. Industry in general was skeptical of the growth target. To quote one commentator: "Looking at the forecasts in retrospect, it would be interesting to know how many companies felt that they were less in the dark...than they were before."¹⁰

⁷ See J. Burton, The Job-Support Machine: A Critique of the Subsidy Morass (London: Center for Policy Studies, 1979).

⁸ A. Budd, The Politics of Economic Planning (London: Fontana, 1978), p. 100.

⁹ R. Bailey, Managing the Economy (London: Hutchinson, 1968), p. 69.

¹⁰ Ibid., p. 77.

The White-Hot Technological Revolution

The Labor Party's 1964 election platform promised to transform the British economy by means of a government-sponsored "white-hot technological revolution," meaning:

a deliberate and massive effort to modernize the economy; to change its structure and to develop with all possible speed the advanced technology and the new science-based industries with which our future lies.¹¹

A number of government initiatives were undertaken toward this end. In 1966 the Industrial Reorganization Corporation (IRC) was established, with the task of promoting selected mergers with taxpayer finance, where such a change in industrial structure would lead to greater efficiency. The Corporation was responsible for a number of developments, its two largest efforts being the GEC/AEI merger (where the Corporation supported an opposed takeover) and the merger between British Motor Corporation (BMC) and Leyland to form British Leyland. An important study by the Brookings Institution concluded that the IRC's basic strategy was to "find the most efficient firm in Britain and merge the rest of them into it."¹²

It was predictable from the beginning that such government-initiated mergers would not necessarily lead to a more successful, or even viable, enterprise. The classic illustration of this is the sorry history of the British Leyland Motor Corporation (BLMC), the major British auto assembler, brought about by an IRC-supported merger, in 1968, between BMC and Leyland Motors. Far from creating a larger, successful enterprise, BLMC subsequently lurched toward bankruptcy, the cost of avoiding which fell to the IRC's successor in the mid-1970s.

Arguably, there was at least one success in the IRC's portfolio of government-promoted mergers--the formation of GEC from English Electric and AEI. Out of the 70 cases the IRC handled in the four years of its life, however, this would be a rather solitary success. But even in that case, the IRC's involvement was scarcely crucial. As one study of the overall performance of the Commission has concluded, the results "do not make a distinguished list."¹³ Although the IRC was expected to earn a commercial return overall on its operation, it in fact provided funds to private companies at way below the price on the capital market for comparable projects. As another study notes, "in many cases

¹¹ Labor Party General Election Manifesto, London: The Labor Party, 1964.
¹² R. Caves, et al., Britain's Economic Prospects (London: Allen and Unwin, 1968), p. 321.
¹³ M. Grylls and J. Redwood, NEB (London: Center for Policy Studies, 1980), p. 8.

it is doubtful if the borrowers (from the IRC) would have been in a position to obtain funds at any interest rate."¹⁴

The Reasons for Failure

Why did the IRC perform so badly? First, there was an inadequate appreciation of the simple fact that even the most efficient firm may not remain so if it has to carry the weight of less efficient organizations chosen by a government agency. Second, although the IRC was staffed by people from the private sector, it was not realized that businessmen, who have been transformed into salaried bureaucrats handling other people's (taxpayers') money, behave differently from their former private sector colleagues.

The IRC was only part of the package of industrial policy measures sponsored by the British government in the late 1960s. Sectoral policy for high-technology industry found its expression in legislation passed in 1965. The purpose of this was to support high-risk R&D projects, on the grounds that they generate diffuse benefits for the whole economy, and to accelerate the introduction of technological innovations in industry. Later, the Industrial Expansion Act of 1968 was designed "to promote efficiency; to support technical advance; or to create, expand or sustain productive capacity" with injections of taxpayer money into selected firms and industries. This legislation was subsequently used to facilitate mergers in the British computer industry, to establish a primary aluminum smelter industry in the U.K., and to make large loans and credit guarantees to the Concorde jetliner and the cruise ship QE II projects, among other ventures.

Did these measures bring about the promised "white-hot technological revolution?" The evidence suggests not. Britain's new computer firm, International Computers Limited, formed in 1968, fell into acute financial difficulties in the mid-1970s and again in the early 1980s. On both occasions, it was bailed out by government injections of cash and guaranteed loans. Yet it never performed as well as had been promised by industrial policy advocates. And the subsidies given to create a primary aluminum smelter facility led to an even more glaring financial fiasco. As one study in 1977 concluded:

one smelter has yet to make a profit and the other two have yet to achieve an adequate return...the eventual cost to the taxpayer could be nine times as much as was first thought.¹⁵

¹⁴ G. Denton, S. O'Cleireacain, and S. Ash, Trade Effects of Public Subsidies to Private Enterprise (London: Macmillan, 1975), p. 23.

¹⁵ C. Jones, The £200,000 Job (London: Center for Policy Studies).

The drift of industrial subsidies to levels well beyond those initially contemplated is a recurring pattern in the story of recent British industrial policy.¹⁶ Yet it should be noted that "for a long time [industrial] policy was seen as a model of anticipatory intervention."¹⁷ In other words, it was assumed in British governmental circles that the aluminum smelter subsidies and similar instances of support demonstrated that government, acting as an entrepreneur with taxpayers' money, could make better judgments than could those involved in industry. The dismal history of such ventures tells another story.

The Anglo-French Concorde supersonic jetliner project illustrates another danger with industrial policy: the allure of "high tech" to political decision makers, who fail to consider the economic and business criteria for assessing technical developments. The Concorde plan was developed, at enormous cost to the British and French taxpayers, on the supposition of their governments that such a jetliner would allow their aircraft industries to get "one generation ahead" of U.S. airplane manufacturers. And high-tech the Concorde assuredly is; but commercial it is not--a quality well understood by independent financial analysts long before its production. The cost per seat mile of the Concorde is roughly three times that of the Boeing 747. British Airways, the national flag carrier, even refused to purchase any of the airplanes until it was assured that it would be compensated by government for the inevitable losses. Sales or even interest outside the manufacturing countries has been practically nonexistent.

The "white hot technological revolution" of the latter half of the 1960s is now mainly remembered for its creation of costly white elephants. The British taxpayer is still paying for many of them.

INDUSTRIAL POLICY IN THE 1970s

The Shift Into Top Gear

In June 1970 a new Conservative government under Edward Heath came into power with a mandate for less government and the "disengagement" of government and industry. Specific pledges included the abolition of the IRC; a reduction of government spending on industry; and a promise by the new government's industry minister that he would "not bolster up to or bail out companies where I can see no end to the process of propping them up." This pledge became known as the "(no) lame ducks policy."

¹⁶ See the later references to British Leyland and the British Steel Corporation in particular.

¹⁷ S. Wilks, "Liberal State and Party Competition: Britain," in K. Dyson and S. Wilks (eds.), Industrial Crisis: A Comparative Study of the State and Industry (Oxford: Martin Robertson, 1983), p. 129.

The IRC was indeed duly abolished in May 1971, and the Industrial Expansion Act of 1968 was repealed. The refusal to support lame duck industries with taxpayers' money also seemed to be holding fast. In 1970, for instance, the government refused to give bridging finance to the ailing Mersey Docks and Harbour Board, and it withdrew financial support from the British film industry. It also abstained from financing or subsidizing a proposal for nuclear merchant vessels.

The attempt to "disengage" from industry, however, began to falter by 1971. Under media and political pressure, the government stepped in to support four failing Scottish shipyards and agreed to continue subsidies initiated by the previous Labor Government.

Another major dent appeared in the lame ducks' policy, thanks to the financial collapse of Rolls Royce at the end of 1971. This company had been urged and heavily subsidized, under the industrial policy of the previous Labor government, to develop the RB-211 jet engine, which had been chosen by Lockheed to power its L1011 "Tristar" wide body jetliner. Very large cost overruns in the engine's development, combined with an inflexible contract on the engine's price, threatened corporate bankruptcy for Rolls Royce. In February 1971, the government stepped in and the major part of the company was nationalized as Rolls Royce (1971) Limited. Large amounts of taxpayers' money followed.

The early experience of the Heath government showed that, once industries or firms come to expect government subsidy, it becomes very difficult for government to withdraw from an active industrial policy.

In 1972 the initial retreat from the disengagement philosophy became an about-face. In a crisis atmosphere of 5 percent unemployment, the government completely reversed its economic policy. A new commitment was made to monetary-fiscal laxity and intensified levels of industrial subsidization, in order to promote expansion.

The 1972 Industry Act conferred wide powers on the British government, enabling it to assist financially selected firms and industries. To the embarrassment of the Conservative government, the foremost of Britain's left-wing politicians, Tony Benn, hailed this Act as the most socialist measure ever passed by Parliament. Under the Act, grants, loans, and equity acquisition could be used to assist projects to create employment and for modernization and nationalization schemes in industry. An Industrial Development Advisory Board (IDAB) was created to give advice on industrial problems to the government and to consider major cases for selective assistance with taxpayers' money. An Industrial Development Unit (IDU) was also created, which seemed to many to be little more than a reincarnation of the IRC.

The 1972 Act, passed by the Conservative government, thus opened the floodgates once again. Among the industries receiving aid were shipbuilding, mainframe computers, textiles, machine tools, and motorcycles, all of which exhibited clear lame duck characteristics.

Labor returned to power in 1974, committed to extensive industrial policy measures to reverse the "deindustrialization of Britain." This so-called New Industrial Strategy was given legislative content by the Industry Act of 1975. Among other things, the legislation created the National Enterprise Board (NEB), bankrolled with approximately \$1.5 billion¹⁸ of taxpayers' money. This was a new state agency that could lend to and acquire stock in private sector enterprises. It was charged with two objectives--which proved to be incompatible:

- 1) The promotion...of industrial efficiency and international competitiveness.
- 2) The provision, maintenance, or safeguarding...of employment.¹⁹

The problem was that while objective (2) is the long-run consequence of pursuing (1), the attempt to prosecute (2) in the short-run, by industrial subsidies, undermines (1) by thwarting the market process of economic evolution. As one economist put it, there was an built-in danger of putting the cart of employment preservation before the horse of economic efficiency.²⁰

Backing Losers--British Leyland

The conflict between these two objectives of the NEB was nowhere more plain than in its attitude toward British Leyland, the auto manufacturer created by the IRC in the 1960s. During the first half of the 1970s, problems intensified within the company, ranging from a lack of good engineers, through atrocious labor relations, to a failure to develop designs for future models. By 1975 the company was heading for a crash, and a study team was set up by the government to report urgently on the matter. The eventual report, known as the Ryder Plan,²¹ called for an injection of about \$1.5 billion of taxpayers' money, over the period 1975 to 1982, in order to allow British Leyland to reequip and regain commercial viability. The government, fearing the economic collapse of the West Midlands of England--Britain's auto-engineering

¹⁸ Throughout this paper, amounts of money in pounds sterling have been converted to dollars at the rate of £1 = \$1.50.

¹⁹ Sixth Report on Competition Policy (Brussels: Commission of the European Industry, 1978), p. 163.

²⁰ V. Curzon-Price, Industrial Policies in the European Community (London: Macmillan, 1981), p. 58.

²¹ British Leyland: The Next Decade (London: HMSO, 1975).

region--if British Leyland was not saved, committed itself to the plan and took over most of the shares of the company, which were then transferred to the NEB.

In fact the allocated money had been spent within British Leyland by 1980, whereupon a further \$450 million of equity was injected by the NEB in 1980-1981. In January 1981, the Secretary of State for Industry announced a further transfusion of nearly \$1.5 billion of taxpayers' money during the next two years.

Despite these vast injections, British Leyland continued to lose the equivalent of hundreds of millions of dollars each year, while total government support for the company, via the NEB, topped \$3.5 billion, or about \$60 for every man, woman, and child in Britain. As Grylls and Redwood have noted, this was "one of the biggest and costliest rescue operations ever mounted in U.K. industrial history."²² The financial return to the taxpayer has been zero, and the volume of government finance eventually committed proved to be well over double that envisaged in the original Ryder rescue plan. Nor is there yet much sign that the corporation will ever get back into the black.

It has been argued that the reorganization of British Leyland would have proceeded at a much faster pace, with a keener appreciation of the urgency of the situation, if government support had not been so generous. It could also be argued that the \$3.5 billion spent on the company would have created far more employment if taxpayers had been left to spend the money themselves. As one study has noted, "Sir Michael Edwardes (the chief executive) departed at the end of 1982 leaving a company far more vulnerable to closure or break-up than the concern he took over in 1977."²³

While the NEB was saddled with two major companies in difficulties--British Leyland and Rolls Royce--by political pressure, its ability to "pick winners" on its own can only be described, as one study has put it, "the return of a loss on capital employed of over £300 million [\$450 million] in businesses where the NEB [did have] autonomy is somewhat disappointing."²⁴

"Sectoral Schemes" and "Planning Agreements"

The second major element of the New Industrial Strategy of 1975 was the implementation of an overt corporatist framework for government and industry discussions. The idea was to "bring together the interests of all concerned"--large companies, large trade unions, and government--so that "Industry and Government

²² Grylls and Redwood, op. cit., p. 55.

²³ British Leyland, op. cit., p. 26.

²⁴ S. Wilks, op. cit., p. 148.

are explicit partners in a close relationship."²⁵ At the level of each main industry, sector working parties (SWPs) were established, composed of representatives from management, unions, and government. By 1979, approximately 40 sectors of manufacturing industry had SWPs, reflecting about 40 percent of total manufacturing output. A new array of industrial subsidies, known as "sectoral schemes" was established, linked to the plans of the SWPs. Under each scheme, government grants were available for reequipping, rebuilding, rationalization, and restructuring in the chosen sectors, but recipient firms had to agree to try to find alternative employment for any redundant workers. Industries covered in this way included electronics, components, machine tools, clothing, ferrous foundry, nonferrous foundry, poultry meat processing, red meat slaughterhouses, textile machinery, paper and board, printing machinery, and wool textiles. By 1979 some \$375 million of taxpayers' money had been allocated to this clutch of sectoral subsidy schemes, amounting to about one-fifth of the average costs of each project so covered.

These arrangements exemplified the corporatist style of much economic policy in the U.K. at that time.²⁶ One of the basic problems with such policy approaches, however, is that they tend to unite manufacturers and unions against competition, and for government subsidies, but to unite them on very little else.²⁷

No figures have been published on the returns to the taxpayer, or to society generally, from these sectoral schemes (some of which still continue), and so an overall assessment is impossible. But this merely points to another general problem with industrial policy: the more diverse and diffuse subsidy schemes become, the greater is the difficulty of assessing their impact or of providing the taxpaying public with an impression of how wisely its money has been spent.

A third element in the New Industrial Strategy was the concept of a "planning agreement," whereby enterprises would be required to provide government with information for planning purposes and to harmonize their business activities with national planning objectives. This system of planning agreements was originally expected to cover the largest 100 or so U.K. manufacturing firms, together with all state enterprises, in a compulsory planning agreements framework. The 1975 Industry Act, however, made planning agreements voluntary. Only one company, Chrysler U.K., which had received \$85 million in grants and \$75 million in

²⁵ An Approach to Industrial Strategy (London: HMSO, 1975), Cmnd. 6315.

²⁶ Another major aspect of the corporatist approach was the "Social Contract" between the Government and the unions, whereby the unions were given a direct say in the formulation of economic policy, in return for their accession to an incomes policy.

²⁷ F. A. Hayek, The Road to Serfdom (London: Routledge and Kegan Paul, 1944), p. 30.

loans to continue in operation, signed such a planning agreement (a condition of the subventions being made).

By the late 1970s, the variety of subsidies available to enterprises, especially those in the "Assisted Areas" (supposedly the economically backward regions), had become so extensive that it took a 44-page booklet simply to list them.²⁸ Moreover, the Assisted Areas by then covered the greater part of the surface area of the country, and the total assistance available could often add up to three-quarters of the outlay on set-up costs in these areas. Targeted industrial subsidy schemes had become a subsidy morass available to practically everyone.

It is not at all clear, however, that this sophisticated and extensive apparatus of industrial policy had any influence in improving overall economic performance. Over the period 1974-1978, the rate of growth of productivity in the U.K. was on average a meager 0.8 percent per annum (excluding the distorting effects of North Sea oil revenues), compared with 3.2 in West Germany, 3.0 in France, and 3.4 in Japan.²⁹ Indeed, by ossifying the structure of firms in favored industries and sectors--at considerable tax and other costs on those not favored by the selective measures--it may well be that economic performance was actually depressed by the policy. A basic problem with assessing industrial policy, of course, is that once it is in place, there is no way to know what might have happened in its absence.

INDUSTRIAL POLICY IN THE 1980s

The Thatcher government, which took office in 1979, did not come to power with a detailed philosophy regarding industrial policy. Its rhetoric suggested, however, that the Conservatives would make a more substantive attempt to disengage government from industrial policy commitments than was the case under Edward Heath. In 1980, Conservative ministers began to describe this new policy direction as "constructive" industrial policy.

Yet constructive industrial policy has not been much of a revolution. The sums of public expenditure allocated to industry by government remain just as high in real terms as under Mrs. Thatcher's predecessor. Moreover, approximately two-thirds continues to go to "sunset" industries.³⁰ All the Thatcher government

²⁸ Incentives for Industry in the Areas for Expansion (London: HMSO, Department of Industry, 1976).

²⁹ G. Hutton, Whatever Happened to Productivity? (London: Institute of Economic Affairs, 1980), p. (iii).

³⁰ In early 1981 the Government announced a "reconstruction of the finances of the British Steel Corporation (a state enterprise) involving a write-off of a cool \$5.3 billion of taxpayers' money invested in the Corporation. The Government also announced further aid of \$1.25 billion in 1981-1982.

has really done so far is to trim the tiller of industrial policy. Regional aid has been pared down, and more new expenditure goes to small businesses and to information technology developments. Otherwise, little has changed.

IMPLICATIONS FOR THE U.S.

Some very basic lessons can be drawn from the British experience with industrial policy:

1) There has been a long and sustained attempt to "pick winners" by means of selective industrial subsidies. But this has not led to a better economic outcome than in countries, such as the U.S., that have not adopted industrial policies. In 1980, for instance, output per employee in U.S. manufacturing was approximately 2½ times that of the U.K.³¹

2) The supposed "winners" have shown an alarming tendency to turn into costly "losers" for the taxpayer. British Leyland, in particular, has become a basket-case, despite high hopes and billions of taxpayer dollars. And the "wonder plane," the Concorde, has been a boon to rock stars and business tycoons, but a pain to the British taxpayer.

3) Related to the second point, it appears to be extremely difficult for government--even a new government explicitly committed to a new direction of policy--to reduce the level and extent of industrial policy subsidies, once they have been initiated.

These matters deserve pondering before the U.S. embarks upon a national industrial policy. Advocates of the strategy seem determined to give the U.S. public the rosiest picture possible of the industrial policy track record. They keep citing Japan--as though it were the only country ever to have experimented with the idea--and even in the Japanese case they are highly selective in the evidence they choose to utilize. But the advocates say nothing of the sorry history of industrial policy in countries such as France, Italy, or Britain. Small wonder.

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³¹ National Institute of Economic and Social Research Review, August 1982, p. 29.