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THE POLITICS OF INDUSTRIAL CHANGE: GOVERNMENT INVOLVEMENT IN THE UK
SHIPBUILDING INDUSTRY 1959-73

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ABSTRACT

This study uses a policy analysis approach to examine the development of government policy towards the UK shipbuilding industry in the period 1959-73 as a case study of government involvement in an industry undergoing change. The focus is primarily at the UK level and policy towards individual yards is considered within this national context. In addition to examining the formulation of policies, the study analyses the political aspects of implementing them. After describing the main influences on the industry and outlining government policy before 1959, the study discusses in detail the development of government policy between 1959 to 1973. A short chapter describes subsequent developments up to the introduction of legislation to nationalise the industry. The role of information in the policy process relevant to shipbuilding and the institutional framework of government policy are analysed in detail. The concluding chapter discusses the effect of shipbuilding policy on relationships between government and industry, the extent to which governments can make an industry competitive, the relevance of models of policy making and the general implications of the study for government involvement in industrial change.

CONTENTS

ABSTRACT	ii
ABBREVIATIONS	vi
FOREWORD	viii
1 INTRODUCTION	
1.1 Analysing industrial policy	1
1.2 Within the industry	5
1.3 Shipyards and their environment	24
1.4 Shipbuilding and the world economy	31
1.5 The shipbuilding policy process	45
Appendix: Coverage of the study and definitions of measurement	57
2 GOVERNMENT POLICIES AFFECTING SHIPBUILDING BEFORE 1959	
2.1 Policy before the First World War	60
2.2 The period between the wars	61
2.3 After the Second World War	65
2.4 Conclusion	70
3 INITIAL RESPONSES TO DECLINE	
3.1 Recognising a problem	71
3.2 The resignation of Sir Graham Cunningham	74
3.3 The DSIR Report	76
3.4 The SAC Report	85
3.5 Developments up to the Shipbuilding Credit Scheme	96
3.6 The Shipbuilding Credit Scheme	99
3.7 Taking stock	104

4	FROM COMMITTEE TO LEGISLATION	
4.1	The setting up of the Geddes Committee	106
4.2	Policy before the publication of the Geddes Report	109
4.3	Fairfields	112
4.4	The Geddes Report	121
4.5	The Shipbuilding Industry Act	143
4.6	A good way to make policy?	151
5	FROM LEGISLATION TO REALITY	
5.1	The situation facing the SIB	156
5.2	Post-Geddes groupings	160
5.3	The return to rescue operations	189
5.4	Shipbuilding Credit Guarantees	207
5.5	Shipping Investment Grants	210
5.6	Shipbuilding and regional policy	216
5.7	Assessing government involvement 1967-70	217
	Appendix: Errors in calculating subsidies by Denton <u>et al.</u> , 1975	234
6	SHIPBUILDING UNDER THE CONSERVATIVES 1970-3	
6.1	The commitment to non-intervention	237
6.2	Implementing non-intervention	240
6.3	The collapse of UCS	248
6.4	Other ad hoc interventions	269
6.5	Institutionalising intervention	271
6.6	The Booz-Allen Report	275
6.7	The July 1973 policy statement	282
6.8	The politics of non-intervention	285

7	POSTSCRIPT: DEVELOPMENTS UP TO NATIONALISATION	
7.1	Introduction	289
7.2	The Court Line Affair	289
7.3	Further involvement in Harland and Wolff and Govan	293
7.4	Drypool: an interesting case of non-intervention	300
7.5	Other developments involving the government	301
7.6	Nationalisation proposals	305
7.7	A scenario for the future	311
8	INFORMATION IN THE POLICY PROCESS	
8.1	Introduction	314
8.2	Reacting to problems and anticipating problems	314
8.3	The role of inquiries	323
8.4	Interest group representations and advisory committees	331
8.5	Monitoring	333
8.6	Conclusion	348
9	THE INSTITUTIONAL FRAMEWORK	
9.1	Introduction	352
9.2	Departmental responsibility for shipbuilding	353
9.3	The role of paragovernmental agencies	373
9.4	Departments and agencies in the policy process	384
10	CONCLUSIONS	
10.1	A typology of government-industry relationships	386
10.2	Can governments make an industry competitive?	393
10.3	The relevance of models of policy making	410
10.4	The politics of industrial change	416
	REFERENCES	427

ABBREVIATIONS

AEU	Amalgamated Engineering Union
ASW	Amalgamated Society of Woodworkers
BOT	Board of Trade
BSRA	British Shipbuilding Research Association (up to 1961); British Ship Research Association (from 1962)
CAWU	Clerical and Administrative Workers Union
Cd, Cmd, Cmnd	Command (prefix to number of White Papers; see section 3 of the references)
CIR	Commission on Industrial Relations
CPRS	Central Policy Review Staff
CSEU	Confederation of Shipbuilding and Engineering Unions
DEA	Department of Economic Affairs
DMSR	Directorate of Merchant Shipbuilding and Repair
DSIR	Department of Scientific and Industrial Research
DTI	Department of Trade and Industry
dwt	deadweight (refers to measurement of tonnage; see appendix to chapter 1).
ECGD	Export Credit Guarantee Department
ECS	Shipbuilding, Electrical Engineering and Chemical Plant
EDC	Economic Development Committee
EFTA	European Free Trade Area
grt	gross registered tons (for definition see appendix to chapter 1)
HC	House of Commons (prefix to number of House of Commons papers; see section 2 of the references)
<u>HC Deb.</u>	<u>House of Commons Debates</u>
<u>HL Deb.</u>	<u>House of Lords Debates</u>
IRC	Industrial Reorganisation Corporation
IDAB	Industrial Development Advisory Board
JICC	Joint Industry Consultative Committee

MOT	Ministry of Transport
MPBW	Ministry of Public Building and Works
NEB	National Enterprise Board
NEDC	National Economic Development Council (Council)
NI	Northern Ireland
NUGMW	National Union of General and Municipal Workers
OECD	Organisation for Economic Cooperation and Development
PAR	Policy Analysis and Review
PAMETRADA	Parsons and Marine Engineering Turbine Research and Development Association
PEP	Political and Economic Planning
PESC	Public Expenditure Survey Committee
REP	Regional Employment Premium
SAC	Shipbuilding Advisory Committee
SBSRC	Shipbuilding and Shiprepairing Council
SET	Selective Employment Tax
SIB	Shipbuilding Industry Board
SITB	Shipbuilding Industry Training Board
SNP	Scottish National Party
SRNA	Shipbuilders and Repairers National Association
<u>S&SR</u>	<u>Shipbuilding and Shipping Record</u>
STUC	Scottish Trades Union Congress
TGWU	Transport and General Workers Union
UCS	Upper Clyde Shipbuilders

FOREWORD

The study of an area of public policy can be approached in various ways, depending on the concerns of the researcher. The concern may be to use a case study approach to illustrate points about individuals, groups and institutions involved in policy advocacy, decision-making and implementation. Alternatively, the policy may be viewed as a process by which an initial state of affairs is transformed into a new state of affairs as a result of government action. Rose, in a discussion of the study of public policy, argues that the most useful framework for organising knowledge at present is a process one.¹ He lists three advantages of process models, and it is worth analysing these critically in turn, since by doing so we can assess whether such models provide a valuable tool for analysing a specific area of policy in practice.

First of all, given our ignorance about public policy, it is an advantage of a process model that it is open. It is possible to 'introduce additional steps or influences into the process without violating logical assumptions - as long as the research can demonstrate the significance of any concept to the study of public policy'.² Thus a process model enables us to systematise existing knowledge without precluding the integration of future insights into the same framework. However, this very openness itself reduces the value of

1. Rose, 1973, p.73.
2. Rose, 1973, p.74.

the processual approach as a guide to the researcher in determining which aspects of the policy area are worth investigating. Even with a relatively narrowly defined policy area such as shipbuilding the total number of influences and interactions involved is enormous. This is particularly true when considering the impact and outcomes of government policy: a policy can have both expected and unforeseen impacts, some directly related to the policy area and other 'external' impacts on other policy areas. The final outcome in the given policy area is also affected by a number of influences in addition to the government's declared policy - some from non-governmental sources and some reflecting the impact of government measures directed at other policy areas. To examine all impacts and all influences on outcomes within the scope of a thesis is impossible, yet a process model as such tells us nothing about which ones we should concentrate on.

The second advantage of a process model referred to by Rose is that 'it emphasises relationships between political phenomenon, and not the mere cataloguing of information'.³ The concern is not with simply listing influences which might affect a policy but with understanding how such influences relate to one another. An additional stage should be fitted into the model only if the researcher can specify where it fits into the process, how it is influenced by previous stages, and how it influences subsequent stages. Again, this provides us with a criterion by which we can fit information into the model. It does not tell us which of the multitude of possible

3. Rose, 1973, p.74

relationships are worth examining in the first place, nor does it tell us what is the appropriate level of disaggregation at which to operate. It is possible to draw 'black boxes' round various sets of relationships and concentrate on the relationships between these 'black boxes'. The process model does not itself provide guidance about where these black boxes should be drawn. Government actions can have many objectives, both explicit and imputed, and the relationships or processes studied will reflect concern with particular sets of these objectives.

Finally, an undoubted advantage of the process model is that it is dynamic. It does not abstract government activity from the sequence of events now does it assume that policy is determined at one point in time. This is an improvement on a policy-making framework, which is relatively narrow, concentrating on the decision-making stage of the policy process and perhaps on the steps leading up to it. The policy-making framework therefore implies a division between politics and administration which this study shows is not appropriate, since politics clearly enters into the implementation stage. In contrast, a process approach stresses that policies are not advocated, adopted, implemented and evaluated at a single point in time.⁴ The process model is concerned with the consequences of a policy and not simply with what led to the adoption of the policy. This concern with consequences includes the consequences for future government decisions in the policy areas concerned. However, in the real world it is not easy to characterise policy in terms of simple cycles of the policy process feeding neatly back into new cycles. The policy process in relation to specific decisions may be truncated and within any policy area at any one time specific issues may be at different stages of the policy process. It may prove difficult to characterise a particular event as unambiguously related to one stage of one cycle in the policy process.

The process model therefore has considerable advantages over other approaches to the study of public policy, but it does not by itself provide clear guidelines for the research which should be conducted in a specific policy area. It is an approach which must be further interpreted by the researcher in tackling his area of concern.

What the present study does is to use a process model as an approach to analysing government activity in terms of declared government policy and declared expectations of outcome. It does not therefore seek to examine in detail the relationships which would be involved,^{if} for example, one imputed the objective of shipbuilding policy as being party electoral advantage. Considerable attention is devoted to analysing why the outcomes of government policy deviate from those envisaged in declared policy and the implications of those outcomes for future government policy. This has inevitably meant that other possible foci for research are referred to in less detail and are not selected for separate analysis. For example, partly for this reason and partly because of the problems of access referred to below, the policy process is not analysed in terms of departmental bargaining within Whitehall, or ministerial-civil service relationships. Thus, to a considerable extent, a 'black box' is drawn round the detailed relationships involved in policy formulation within government; the major emphasis is on the relationship between government and other bodies involved in the policy process. Similarly, while the significant features of management and unions are described in the introduction and their role in important developments is outlined, they are not singled out for detailed analysis. No attempt

is made to analyse the internal decision-making processes of the fifteen or so unions with members in shipbuilding or to undertake a comparative analysis of the role played by each in initiating or responding to shipbuilding policy developments. To have done justice to this interesting theme would have involved a substantially longer research programme and thesis and a sizeable diversion from the focus on declared government policy.

This emphasis on the government perspective reflects the 'top downwards' approach adopted in this study. Clearly, this is not the only approach which could be adopted in studying shipbuilding policy. An alternative approach would have been to study shipbuilding policy from the 'bottom upwards', that is, to adopt a firm-focussed approach. Thus, instead of concentrating on how the government went about implementing its policy and how it responded when the desired outcome was not achieved, one would examine the implications for the firm of government policy. A detailed analysis of the impact of specific government measures can only be carried out at the level of individual firms since only there can the researcher attempt to disentangle the effects of government policy measures from all of the other influences which affect the final outcome. Even then, the task would be a very difficult one and conclusions about impact would depend on which assumptions were adopted by the researcher, as is illustrated by the case of Fairfields, discussed in section 4.3. Thus the detailed analysis of the impact of government policy on a selected number of shipbuilding firms would itself form a research project

outside the scope of the present project. The impact of government policy is referred to here only in general terms. The emphasis is rather on the implementation of policies and the outcome of government actions in terms of declared policy and declared expectations of outcomes. The conclusion emphasises the various influences which can cause outcomes to deviate from those publicly expected by the government.

The prime concern of the approach adopted in this study lies clearly with answering empirical questions about government involvement in industry. What were the circumstances in which declared policy evolved? Can a pattern of policy over time be discerned and does this have consequences for government-industry relationships? Can governments be sure of securing the outcomes they seek in industrial policy and if not are the failures due to poor initial policy design, switches in policy, or unforeseeable and uncontrollable events? However, although the main concern is empirical, the last question in particular relates to much more general issues of the way governments make decisions and follow them through. The best way of considering these general issues is by comparing them with their treatment in theoretical models of policy-making. The researcher considering this approach is confronted with a large and continually increasing number of models of how policy-making is or ought to be conducted. Some of these have been developed in the context of particular case studies, while others make general claims as theories of policy-making. To select only one of these models would mean that only one set of assumptions and their implications were being compared to policy in

practice, and this would do little to illuminate the issues involved. The approach adopted here is to select as paradigms two substantially contrasting models so that comparison with policy in practice can be made in terms of which model or parts of a model approximate most closely to shipbuilding policy in practice. The models used are an 'incremental' model based on Lindblom's writings and a 'rationality' model based on Simon, since these make contrasting assumptions about rationality, consistency of policy, knowledge available to policy-makers and control exercised by government. In the introduction the main characteristics of the models are outlined, while on the basis of the evidence and analysis in the intervening chapters the conclusion examines how far shipbuilding policy in practice can usefully be described in terms of these models and whether prescriptions contained in the models have any relevance to the conduct of shipbuilding policy in practice. The primary purpose -- of using the models is not therefore to 'test' the models, but to use them to highlight important features of shipbuilding policy.

Given the emphasis in this study on how policies are delivered, it is worth exploring the issues involved in policy implementation in more detail. The introduction outlines analyses by Pressman and Wildavsky and by King which, focussing as they do on the chain of activities which are necessary to follow through a government policy, appear particularly relevant to the study of the outcome of declared government policy. However, in the light of the analysis in the thesis, this approach to the analysis of implementation is critically re-examined in the conclusion, and an

approach to implementation more relevant to industrial policy is outlined.

To establish a preliminary outline of the shipbuilding policy issues which required examination under this approach, a systematic review was carried out of references to British shipbuilding in The Times and House of Commons Debates (including parliamentary questions); these were supplemented by reference to the Shipbuilding and Shipping Record. None of the indexes of these publications was ideal for this purpose; the index to the House of Commons Debates was particularly unsatisfactory since there was no consistent system for entries, and it was necessary to check possible entries for individual firms or shipbuilding areas to ensure that even government statements were not overlooked. All the relevant published official documents, including inquiry reports, were reviewed, as were relevant books and articles dealing with shipbuilding, generally from a shipbuilding industry or economic focus rather than a political science one.

A major source for the research was evidence presented to House of Commons Select Committees, which have on a number of occasions investigated government involvement in the industry as a whole or in specific firms. It should be stressed that the most useful material came from the evidence rather than the reports themselves, which are generally of interest only as expressions of the agreed attitudes of the committees. In addition to oral evidence given before Members of Parliament - largely from civil servants, but also from shipbuilding management and politicians - written evidence was frequently presented as a preliminary to oral examination; in addition, some documents

originally intended only for internal departmental use are included in appendices to the reports in response to requests from committee members. It is striking that many of these reports fail to make much use of the raw material presented in evidence and also that little or no attempt is made to incorporate into reports the findings and evidence accumulated by previous committees. This material once systematically reviewed is particularly valuable in contributing to an understanding of how government departments and their agencies set about implementing and re-interpreting declared policy.

As with all sources, the researcher should be aware of the context in which the evidence to these committees was presented. Many of those giving evidence were placed in the position of defending their own roles and therefore their evidence taken in isolation should not be used as a basis for generalisation. Civil servants, for example, are precluded from drawing politically sensitive conclusions in giving their answers, since by convention this is a matter for the minister. There are certain features in the procedures of taking evidence which assist the researcher in assessing the value of such evidence, both on matters of fact and on opinions expressed. First of all, the civil servants in particular obviously check transcripts of the evidence they give; where this involves corrections, a note is incorporated in the evidence as published. Secondly, although all those giving evidence had some kind of vested interest, most committees took evidence from a variety of sources; for example, shipbuilding management, Shipbuilding Industry Board officers and

departmental civil servants. Thus it was normally possible to obtain a variety of perspectives on any one issue. In addition it was possible to cross-check some items from other printed sources used or from interviews. In using evidence to these committees it is therefore important not to pick out any single replies in isolation. It is essential^{to} read the whole of the relevant evidence, both to be aware of the context in which a remark was made and to be sure of picking up corrections, identifying contradictions and discovering differences of interpretation.

The interviews conducted by the researcher performed a supplementary role rather than constituting the major source for the study, though some sections of the thesis do rely primarily on material collected through interviews. Those interviewed included a number of politicians, civil servants, members of committees of inquiry, and officials of representative organisations, all of whom had been involved in shipbuilding policy during the period with which this study is concerned. Some of those interviewed had been involved in more than one role during that period. Typically, an interview would commence with the researcher asking a number of specific questions about issues in which the interviewee had been involved, with particular emphasis on aspects where available evidence was inadequate or conflicting. These would be followed by questions or discussion about the general background to these issues, in particular features of the organisation in which the interviewee worked. In a number of cases this background material proved more valuable than the answers to questions about specific issues; for example, chapter 9 on the institutional framework had benefitted

from interviews with civil servants and others involved in the various departments or organisations. A number of interviews provided opportunities for obtaining unpublished documentary material.

The potential value of interviews to the research was limited by two factors. The first was the poor results obtained from many of the interviews. This was largely due to the imperfect recall of events by some interviewees; some important features of issues had simply been forgotten, while some replies were clearly incorrect given the actual sequence of events. The systematic review of available sources helped to prevent errors creeping into the study in this way. The second adverse factor was the inability of the researcher to obtain access to some individuals; the main problem was the refusal of some politicians who had been involved in shipbuilding policy to be interviewed. In all such cases numerous public statements by these politicians were available, but the inability to obtain access made it impossible to develop an analysis of the importance of ministerial-civil service relationships or interministerial bargaining in the formulation of declared shipbuilding policy.

The nature of the interviews conducted, many of which were of the only holder of a unique post, causes problems in presenting material from the interviews, since some of this material was 'off-the-record'. As far as possible, where material in the thesis is largely based on or was confirmed by material collected in an interview, the source is named. On other occasions the general nature of the source is indicated, but in a very limited number of instances it has proved impossible to give even a general indication

of the source because of the uniqueness of the position held by the interviewee.

The chapters which rely most heavily on material collected from the various sources described above are those describing the evolution of shipbuilding policy during the period of the study. These chapters are preceded by an introduction which outlines the major influences on the British shipbuilding industry to back up the contention that government is only one of such influences and also provides background information for the succeeding chapters. The final section of the introduction outlines the theoretical perspectives referred to earlier. The central chapters of the thesis, chapters 3 to 6, examine the development of shipbuilding policy in the years 1959 to 1973. Each chapter is concerned with developments in successive time periods. This presentation of shipbuilding policy over time reflects a concern with the dynamics of the policy process. It is not, of course, possible or desirable to analyse developments entirely sequentially. As was pointed out above, at any given time there are a number of relevant 'policy cycles' in operation and these may be at different stages. Thus within a chapter it may be desirable to devote a section to a particular policy issue; for example, shipping investment grants.

As well as describing the circumstances surrounding the formulation of each major policy pronouncement, these chapters examine the implementation of the policies. In contrast to statements of policy, which even in statutory form are couched in general terms, implementation of policies frequently had to take place on a firm-by-firm

basis. There are often distinctive features between different firms in the way a particular policy has been implemented, and in order to justify the conclusions drawn it has been necessary to describe these features in some detail and at some length. The material presented in these chapters does, of course, represent only a small fraction of the total material collected.

The chapters examining the evolution of shipbuilding policy are followed by two chapters which develop some of the major themes which emerged in the central chapters and merit separate and fuller treatment. Thus the chapter on information in the policy process could be said to fill out some of the 'arrows' connecting 'black boxes' in the policy process; while the focus is on information, the political implications for declared policy are stressed. The chapter on the institutional framework analyses some of the characteristics of the government bodies involved in shipbuilding policy, with particular emphasis on policy delivery aspects.

The conclusion draws together the main themes of the study, moving away from policy detail to more general policy characteristics, in particular those with general relevance to industry policy. Naturally enough, given the perspective of the study, these conclusions are largely concerned with the implications of government involvement for government-industry relationships and the constraints in the achievement of the outcomes which declared policy was designed to achieve.

CHAPTER 1

INTRODUCTION

1.1 ANALYSING INDUSTRIAL POLICY

This study is concerned with the analysis of government industrial policy, a topic relatively neglected by political scientists, who have tended to regard it as the province of economists. A purely economic analysis will, however, fail to take account of the political environment in which policies are formulated and attempts to implement these policies are made. The approach adopted here is to study government involvement in one industry, shipbuilding, over a period of fourteen years. An alternative approach would have been to compare government involvement in a number of different industries within a short period of time; for example, the Labour government 1964-8. This approach would, however, have a number of disadvantages: it would not permit full discussion of all the influences affecting each industry, nor would it be possible within the constraints of such a short time period to assess the impact of policies. Such an approach would also have the disadvantage of concentrating on a collection of single decisions rather than examining the implications of long-term involvement.

The approach adopted here is to study shipbuilding over a longer period, 1959-73. The selection of these dates is necessarily rather arbitrary. The reasons for choosing these particular dates are that by 1959 the relative decline of UK shipbuilding was fully apparent and calls for government action to deal with this were being voiced, while 1973 saw the last government policy statement on

shipbuilding before a new Labour government took office in 1974 with a commitment to nationalise the industry. This period is not, of course, entirely self-contained, so brief summaries are given of developments before and after these dates. Within this period, an account is given of developments in the UK shipbuilding industry as a whole, supplemented by chapters on recurring themes, rather than a yard-by-yard approach or concentration solely on comparative topics, such as legislation, inquiries and administration. Policy towards individual yards is considered within the context of national developments of policy. Bringing out developments over time in this way enables discussion of the relationship between the various policy announcements and analysis of how these policies were implemented and what impact they had.

The examination of one industry over a relatively long period does, of course, have its disadvantages. For the researcher the disadvantage is the volume of material which must be collected and then used in an appropriate way. More importantly, the degree of permissible generalisation about government involvement in industry generally which can be made from the study of one industry is fairly small. Thorough study of individual industries is, however, necessary before any useful generalisations can be made at all.

One important aspect of the approach adopted here is that it is misleading to view government involvement in shipbuilding in isolation from all the other influences on the performance of the industry, including other government policies, or in isolation from the effect which the performance of the industry can have on other parts of society. Some of these influences are internal to shipyards, (e.g. the interaction of manpower and technology); while others are external,

both in the sense of external to the shipyard (e.g. the supply of components and labour), and external to a single country (e.g. the demand and supply of ships, which in turn depends on international trade and involvement by foreign governments in their shipbuilding industries). Shipyards also affect the societies in which they are situated: this is seen most vividly when a shipyard closes.

We cannot, therefore, view individual shipyards or the UK shipbuilding industry as a whole as a closed system (fig.1.1).



Nor must we fall into the more likely trap for a student of politics of viewing our relevant system as being government acting on the shipyards (fig.1.2).



Or even interacting with the shipyards (fig.1.3).



The influences on government and shipbuilding are much more complex. Fig.1.4 provides a simplified illustration of the more important ones. The problem now is that in a literal sense we have included the whole world in our system. To understand how all these interactions influence government involvement in shipbuilding we will have to examine the relevant features of the industry in some detail. The chapter will then be concluded with an outline of relevant analytical approaches to the study of decision-making and other aspects of the shipbuilding ^{policy}/process.

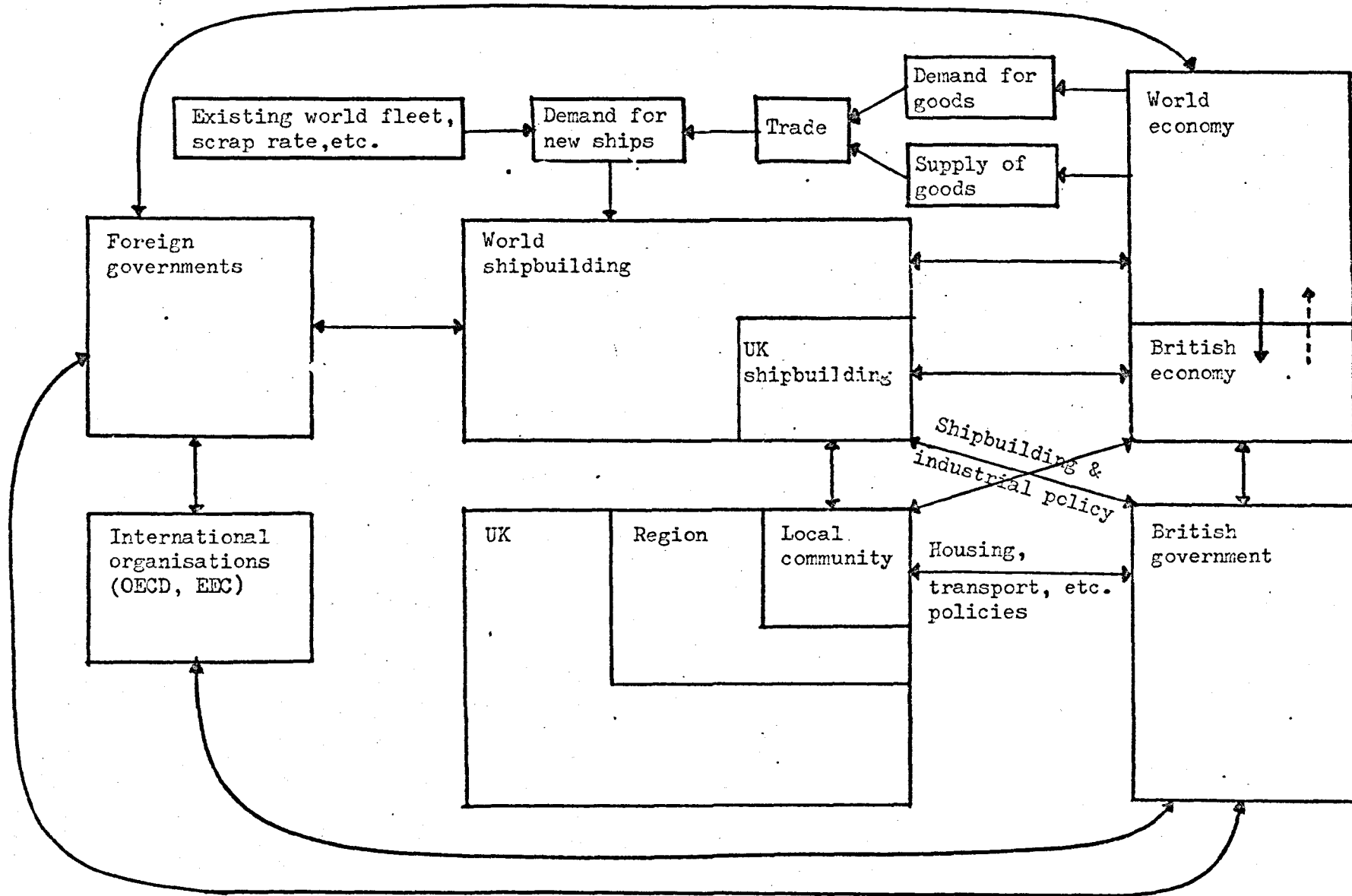


Fig. 1.4 Major influences on the UK shipbuilding industry

1.2 Within the Industry¹

Obviously, what goes on within the firms themselves is relevant to government involvement, so initially shipbuilding can be considered in terms of a simple model of a firm which has inputs and an output. (see fig.1.5).

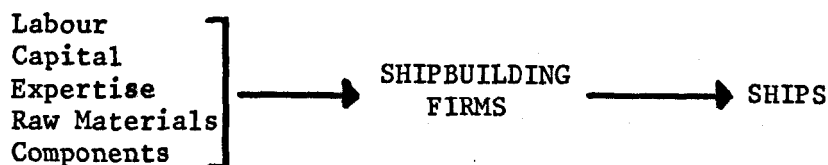


Fig.1.5

It is therefore appropriate to start by examining the importance of each of the elements which affect activities within the firm.

1.2.1 Labour

Between mid-1956 and mid-1964 employment in shipbuilding steadily declined, while between 1967 and 1972 the number fluctuated without indicating an overall decline. Within these totals there have been considerable variations; for example, the number of riveters and associated trades dropped much more sharply than the average, while craftsmen such as platers, burners and welders were in short supply by 1965. This reflects the changing technology of shipbuilding, with welding replacing riveting. Total figures also conceal variations between firms, with some firms expanding their labour force while others were contracting. This last point is of political significance, since we will want to examine whether it is the problems of specific firms in specific locations rather than global figures

1. This presentation owes much to an Open University programme in the T241 Systems Behaviour course, broadcast on BBC Television on 21 September 1975, but the analysis here is taken much further. The Appendix at the end of this chapter defines the coverage of this study in terms of the size of ships built and also provides definitions of the various tonnage measurements used.

which seem to be most important for government involvement (see Section 1.3.2).

The average age of shipyard workers is high compared to manufacturing industry, with over half of the workforce aged over 40 in 1972. During the period covered by this study, the earnings of shipbuilding workers changed from being lower than industry generally to being slightly above those in all engineering industries. However, there was wide variation between companies and between sections of the workforce in average earnings, a source of possible friction when the industry is nationalised. Another development during the period is that the number of pay grades has been considerably reduced.

The relative proportions of salaried, skilled and unskilled workers varies according to whether merchant or warships are primarily built, as can be seen from table 1.1. The manual workers

Table 1.1 Industry workforce by labour category, major UK shipbuilders, 1972.

	Salaried staff	Skilled	Semi- and Unskilled	Apprentices	Total
Merchant builders	8,382	22,449	14,255	4,233	49,319
Warshipbuilders	5,831	5,952	4,773	1,127	17,683
Total	14,213	28,401	19,028	5,360	67,002

Source: Booz-Allen Report, 1973, exhibit 61, p.160.

can in turn be classified according to the particular trades pursued (see table 1.2). This classification into trades is reflected in the membership of trade unions, which are largely craft-based (see table 1.3). Of these, the Boilermakers (Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers) can be seen as distinctive and has frequently taken a stand in negotiations separate from that of other shipbuilding unions. ²

2. For details of union organisation in shipbuilding, see Cmnd 4756, chapters 8-11.

Table 1.2 Manual labour force in shipbuilding by occupational grouping, Great Britain 1970.

Occupational group	% of total manual labour force	
<u>Steel trades</u>		
Platers/shipwrights	14.1%	
Welders	11.3%	
Calker/burner/driller/riveters	6.1%	
Others	3.6%	
Total steel trades		35.1%
<u>Other craft occupations</u>		
Fitters/turners and Machinists	8.7%	
Plumbers/coppersmiths	6.3%	
Electricians	5.8%	
Joiners	5.1%	
Painters	2.4%	
Woodworking shipwrights	0.9%	
Others	3.6%	
Total other craft workers		32.8%
Non craft manual workers	19.7%	
Other employees	12.4%	
Total all employees		100.0%

Source: Cmnd 4756, appendix 3, table 1, p.153.

The coordinating body for the shipbuilding unions is the Confederation of Shipbuilding and Engineering Unions (CSEU). Like most of the individual unions, the CSEU covers industries other than shipbuilding: foundries, engineering, railways and aircraft. Shipbuilding is dealt with by a shipyard committee, which is the full CSEU executive council with the president of the Boilermakers as Chairman, and by a Shipyard Negotiating Committee which conducts CSEU business with the Shipbuilders and Repairers National Association. The Negotiating Committee was set up following the Geddes Report to deal with all problems in the shipbuilding and ship repairing industries, including 'all aspects of the Geddes Report'.³

3. Times, 16 September 1966.

The Unions regarded the Negotiating Committee as an alternative to the Geddes Committee's suggestion that there should be 'only' five unions in the industry - in contrast to single shipbuilding unions in many of Britain's competitors.

Table 1.3 List of unions in the shipbuilding industry and details of membership, 1965-6.

Union	Membership	Approximate percentage of total operative labourforce in shipbuilding
The Amalgamated Society of Boilermakers, Shipwrights, Blacksmiths and Structural Workers.	Angle-iron smiths, boiler-makers, platers, riveters, caulkers, burners, welders, holders-up, sheet-iron workers drillers, loftsmen, shipwrights (wood and steel) riggers, blacksmiths, staff foremen, certain supervisory grades and ancillary workers.	33
The Electrical Trades Union	Skilled electricians, staff foremen, certain supervisory grades and semi-skilled grades	4.6
The Amalgamated Engineering Union.	Fitters, turners, blacksmiths, welders, drillers, machinists, turret operators, brass finishers, brass moulders, pattern makers, coppersmiths, electrical fitters, ship fitters, millwrights, tinsmiths, riggers, semi-skilled and unskilled grades, staff foremen and certain supervisory grades.	9.6
The National Union of General & Municipal Workers	Semi-skilled and unskilled grades.	15.0
The Amalgamated Society of Painters and Decorators.	Craftsmen painters and decorators.	6.3
The Plumbing Trades Union.	Plumbers.	3.6
The National Union of Sheet Metal Workers and Copper-smiths.	Sheet metal workers and coppersmiths.	2.8
The Transport and General Workers Union.	Semi-skilled and unskilled grades.	7.3

Table 1.3 (contd.)

The Amalgamated Society of Woodworkers.	Joiners, carpenters, cabinet makers and some woodworking machinists.	7.1
The United French Polishers Society .	French polishers	NA
The Heating and Domestic Engineers Union.	Pipe fitters and whitesmiths (mainly employed on contract in the industry).	NA
The United Patternmakers Association.	Patternmakers.	NA
The Amalgamated Society of Woodcutting Machinists.	Woodcutting machinists.	NA
The Clerical and Administrative Workers' Union.	Clerical grades.	-
The Draughtsmen's and Allied Technicians' Association.	Draughtsmen, planners and female tracers	-

There are a number of other unions with members in the shipbuilding industry but they represent only a small proportion of the total work force.

Source: Cmnd 2937, appendix Q, p.190.

1.2.2. Management.

The quality of management in shipbuilding has often come under severe criticism. The Geddes Report (1966) thought that it was necessary to recruit specialised management skills and to improve qualified supervision in the shipyards.⁴ The Booz-Allen Report, seven years later, thought that company organisation structures were often unbalanced, with most shipbuilding companies strongly biased towards production and technical functions.⁵ This bias was reflected in the formal qualifications of senior management, though the report

4. Cmnd 2937, chapter 16.

5. Booz-Allen Report, 1973, chapter 11.

found that the age profile of management and some recent appointments suggested that attitudes were changing. The relatively self-contained and traditionally oriented nature of shipbuilding management during much of the period considered in this study did have implications for government involvement: it affected the reluctance of management (with notable exceptions) to introduce significant changes in technology and management structure in the early 1960s, and accounts for much of the suspicion with which the Fairfields Experiment in using new techniques was regarded by other shipyards on the Clyde (see section 4.3).

Until May 1967 shipbuilding employees were represented at a national level by two separate organisations: the Shipbuilding Conference, which was a trade association, and the Shipbuilding Employers Federation, which was a federation of local employers' associations and dealt mainly with industrial relations matters. The role of local associations declined sharply following the mergers of shipyards which took place in the late 1960s with government assistance. One of the influences which led to the merging of the two national organisations (together with the Dry Dock Owners and Repairers Central Conference, which was a trade association for shiprepairing) to form the Shipbuilders and Repairers National Association (SRNA) was that the same officials were backing up representatives from both organisations in making representations to bodies such as the Geddes Committee but were not able to answer questions which were the function of the other organisation.⁶

6. Interview with former Director of the SRNA. For a description of the organisation and functions of the SRNA see Cmnd 4756, pp.32-5. (Date of interview: 11 December 1972.)

Thus the structure of the national organisations of both employers and unions has been modified in response to government involvement in the industry.

1.2.3. Ownership and Structure.

The structure of the industry changed considerably during the 1960s as a result of a number of mergers, which are illustrated in fig. 1.6. Apart from the mergers, the other feature to be noted from fig. 1.6 is that many shipyards went out of production altogether. The nature of ownership of shipbuilding firms has obviously been affected by these changes of structure. For example, many of the shipyards on the upper Clyde in the early 1960s were virtually family companies; following the formation of Upper Clyde Shipbuilders (UCS) in 1968 the state shareholding became increasingly important.

The Booz-Allen Report (1973) identified three types of ownership:⁷

1. Controlled by large and diversified firms: e.g. Appledore Shipbuilders and Doxford and Sunderland were controlled by Court Line until 1974. Companies controlled in this way accounted for 39% of total industry turnover in 1972.
2. Partly or wholly controlled by government: e.g. Cammell Laird (50% owned by government); Govan Shipbuilders (wholly owned). Such companies produced 23% of the total industry turnover.
3. Independent companies primarily involved in shipbuilding: e.g. Swan Hunter, Scott Lithgow. Such companies accounted for 38% of the total industry turnover.

The nature of ownership of the industry will, of course, undergo a considerable change with the nationalisation of most shipbuilding companies in Great Britain. It is important to emphasise that it is

7. Booz-Allen Report, 1973, p.108.

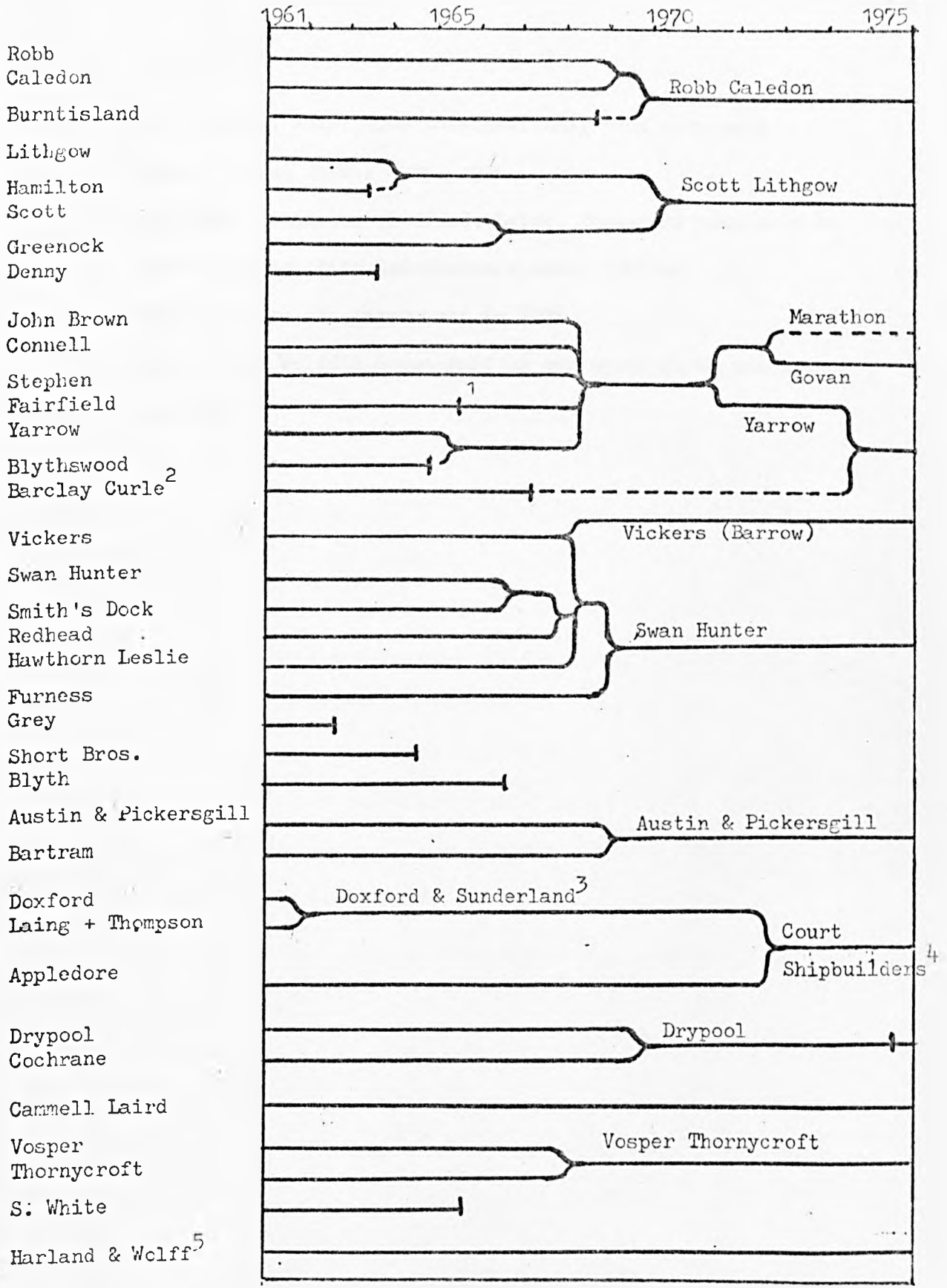


Fig. 1.6 Major changes in the structure of the UK shipbuilding industry

Key: —| indicates closure or appointment of liquidator or receiver.
 ---- indicates no longer building ships.

Notes to figure are on following page.

Fig. 1.6 (continued)

Notes: 1. New company, Fairfields (Glasgow) Ltd, took over yard.

2. Owned by Swan Hunter until 1974.

3. The three companies (Doxford, Laing, Thompson) continued to operate in relative independence until 1968-9.

4. Taken over by the government in 1974.

5. Harland and Wolff's Govan yard on the upper Clyde was closed in 1963.

shipbuilding companies in Great Britain rather than the United Kingdom which are affected: Harland and Wolff, although wholly state owned, will remain outside British Shipbuilders.

1.2.4. Suppliers: Steel.

In 1972 steel represented about 15% of the cost of building merchant ships in the UK, compared with 20% in 1965. By 1972 shipbuilding was the second largest user of steel plate in the UK, whereas in 1965 it had been the largest user. The Geddes Report argued that shipbuilders and steelmakers had a joint interest in maintaining and increasing the British share of the growing world market for ships and it recommended that the eventual objective should be a 10% reduction at constant prices in the steel cost of British-built ships and that as a start the arrangements for a differential price for plate supplied to shipbuilders should be reinstated.⁸ This recommendation was not accepted, and there were a number of rises in the price of steel in subsequent years. However, the Booz-Allen Report found that UK plate prices had been competitive over the previous five years up to 1972.⁹

Marine Engines: In 1965 it was estimated that main engines cost 10-15% of the total cost of a ship, and in 1972 this figure was put at 15%. Historically, main engine building in the UK has been carried out within the shipbuilding industry, with many shipyards having engineering shops in the yard. However, the Geddes Report felt that the advantages of the proximity were not of great significance.¹⁰

8. Cmnd 2937, chapter 10.

9. Booz-Allen Report, 1973, p.189.

10. Cmnd 2937, chapter 11.

The report argued that main engine building was particularly suited to series production and that existing engine builders were too small to use the best equipment in the most effective way. Accordingly, Geddes recommended that engine building should be concentrated into four production units specialising in engine building, and separate from shipbuilding. However, by 1972 the eighteen builders of large main engines identified in the Geddes Report had been reduced to nine rather than four, and five of the nine were linked to shipbuilding companies. The Shipbuilding Industry Act 1967, the shipbuilding provisions of which are considered in detail in chapters 4 and 5, also provided for assistance to the marine engine builders. However, only £309,000 was paid in grants, the bulk of which was to one company. This reflected the failure to group companies to the extent desired by Geddes and the fact that capital expenditure in the industry was relatively low.

Other suppliers. Other equipment accounted for upward of a third of the cost of a ship in 1965, while by 1972 it was considered to represent about 25% of the cost. Several hundred firms may be involved in supplying a single shipyard. These firms will vary both in the size of their sales to shipyards and the extent to which they depend on shipbuilding orders. A survey carried out by the Department of Trade and Industry and referred to in the Booz-Allen Report found that only 15% of companies engaged in the supply of marine equipment are more than 50% dependent on sales to UK shipbuilders in terms of employment, while only 10% of the total combined workforce of the supplying companies was dependent on sales to UK shipbuilders.¹¹

11. Booz-Allen Report, 1973, pp.193-4.

UK marine equipment manufacturers were by no means solely dependent on UK shipbuilders: for the six major suppliers in the UK, export sales exceeded UK sales in 1971. UK merchant shipbuilders found that the quality of the supplies was good but that delivery performance was often unsatisfactory.

Relationship of cost of materials to labour and overheads. Fig.1.7 illustrates the proportion of costs attributable to materials, labour and overheads in the years 1967-71. Overheads accounted for a significantly larger proportion of costs in 1971 compared to 1967, while the proportion of labour costs showed a slight rise. Table 1.4 compares UK figures with those of its major European competitors, illustrating that overheads were a higher proportion of costs in the UK.

Table 1.4 Proportion of shipbuilding costs between overheads, labour and materials: European shipbuilders.

	UK	Spain	France	Germany	Norway	Sweden	Average of Europe
Materials	55	64	70	56	68	67	65
Labour	26	31	27	26	18	24	25
Overheads	19	5	3	18	14	9	10

Source: Booz-Allen Report, 1973. Exhibit 84, p.213.

1.2.5. Shipbuilding production and technology.¹²

Production. Shipbuilding as an activity resembles both civil engineering and vehicle production. It resembles civil engineering in that it is concerned with constructing large structures, normally in the open air and frequently as 'one-off' orders. Though a number of yards

12. For much fuller accounts of this topic see Parkinson, 1960; Alexander and Jenkins, 1970. Chapter 2; Patton Report, 1962; Cmnd 2937, chapter 13; Booz-Allen Report, 1973, chapters 4, 8, 15, 23.

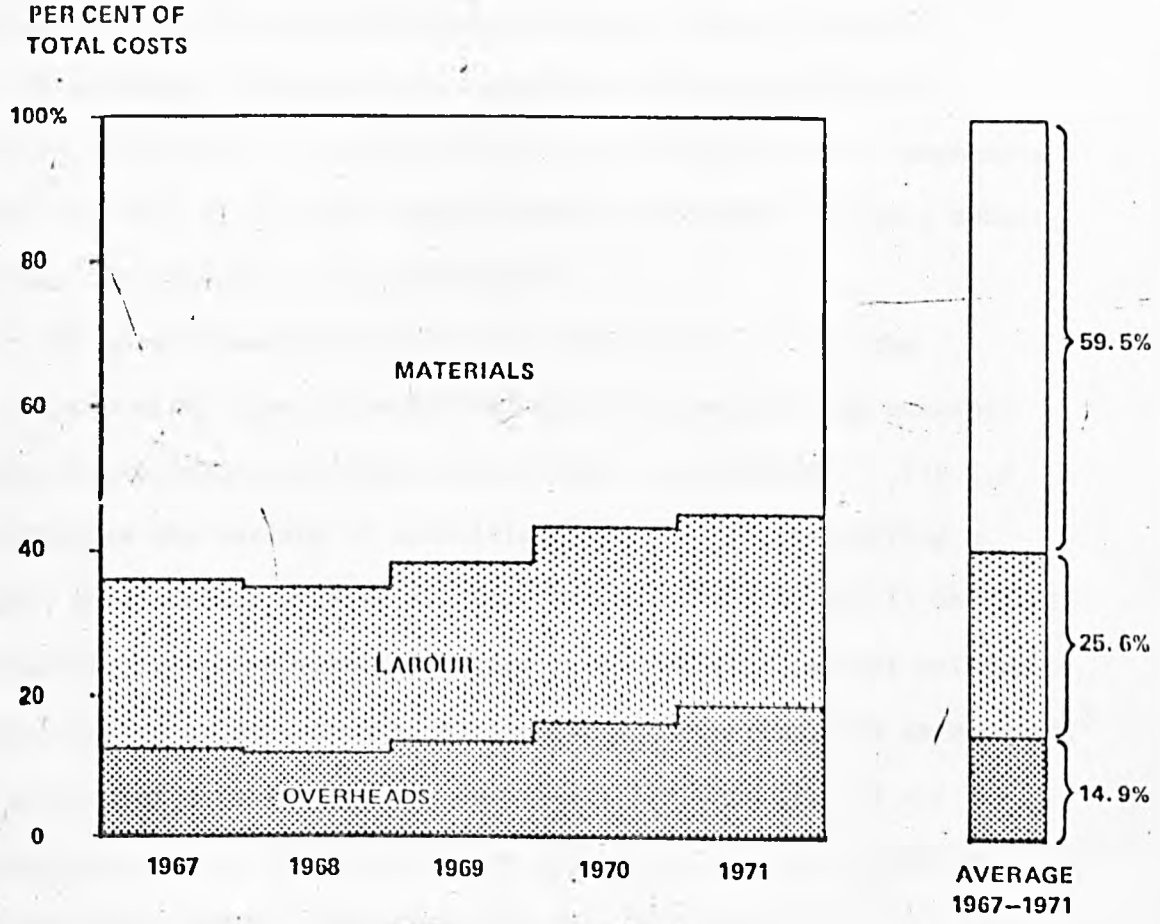


Fig. 1.7 Proportion of shipbuilding costs between overheads, labour and materials, UK 1967-71

Source: Booz-Allen Report, 1973, exhibit 49, p.127.

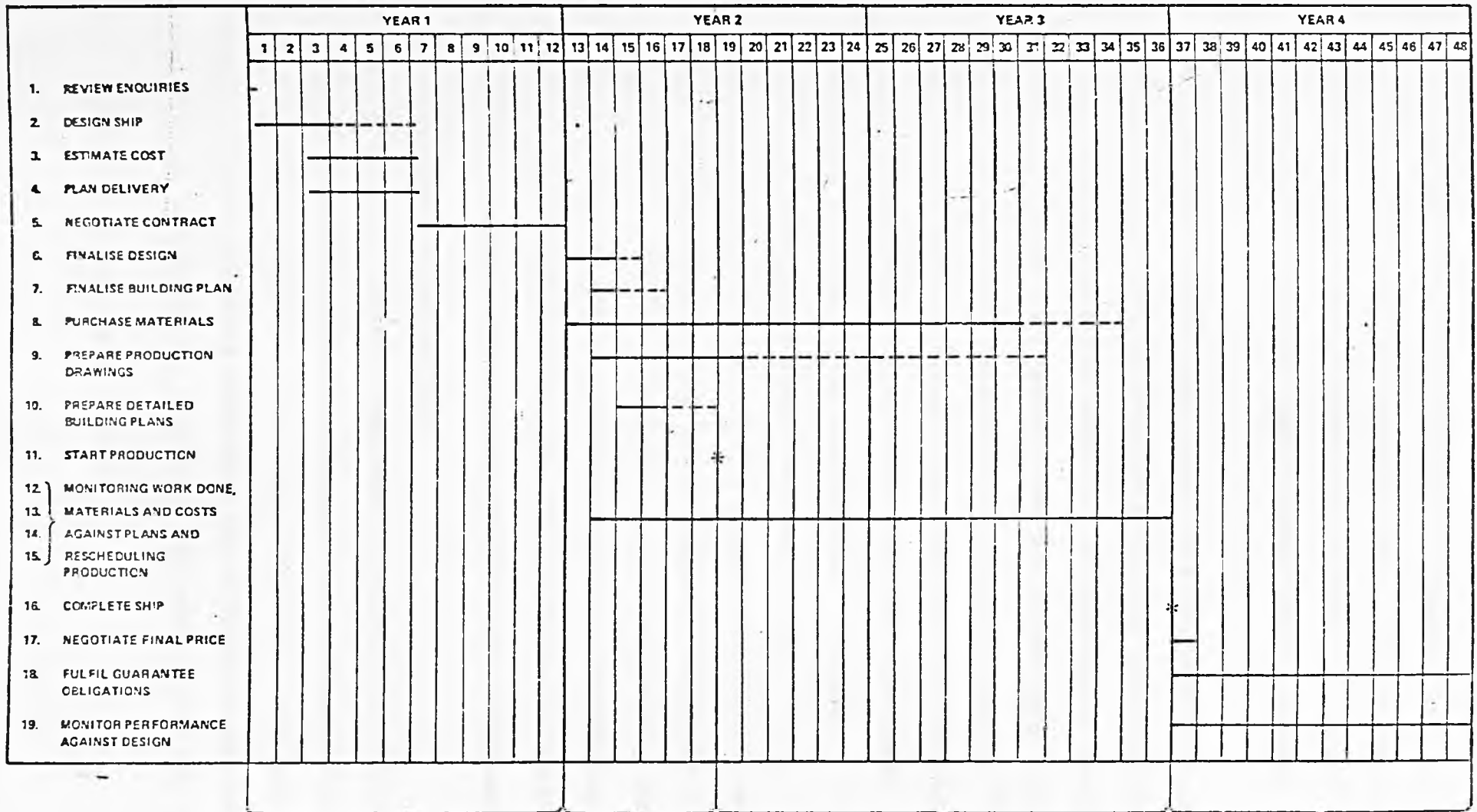
now have covered berths, the traditional method of constructing in the open air has contributed to the poor working conditions in the industry. Shipbuilding resembles vehicle operation in that it is largely an assembly industry, putting together components from a variety of suppliers and in that its product is highly mobile, so that it competes in a world market.

The actual construction of the ship is only part of the activities which have to be carried out by a shipbuilding company: marketing, planning and design are obvious prerequisites. Fig.1.8 illustrates the variety of activities involved in constructing a ship. Good contact between all departments in a shipyard is obviously essential, but the Booz-Allen Report commented that contact between design and other departments, particularly production, was infrequent.¹³ Of particular significance for activities 12-15 in fig.1.8 was the finding that costs were analysed on different bases by estimating and financial control departments in several yards.

Fig. 1.8 also illustrates another important feature of the industry - the long time scale involved in building a ship, typically three years from design to completion. This long time scale obviously affects the industry's ability to adapt to sudden changes in costs or demand.

Technology and production facilities. One of the major changes in the technology of shipbuilding took place before the period covered in this study - the change, from riveting to welding, as the main method for joining the plates which make up the ship's hull. Like many technological changes this had profound human implications in that it

13. Booz-Allen Report, 1973, pp.121,186.



Selling and Technical Specification

Technical Preparation

Building Ship

After Sales Service

Fig. 1.8 Typical time scale for building a medium-size conventional ship (80,000 tons deadweight)

Source: Booz-Allen Report, 1973, exhibit 27, p.83.

altered the relative demand for skills. The period covered by this study saw changes such as the greater use of computers, both in design and controlling machine operations and a trend towards greater prefabrication of modules for assembly in the berth. This last development obviously required a well-planned yard and improved crane facilities.

However, despite significant changes in a few yards all reports on the UK industry during the 1960s and early 1970s echoed criticisms that Britain lagged behind its competitors in improving its facilities. The Booz-Allen Report, for example, found that in many yards there was an urgent need for further replacement of antiquated equipment.¹⁴ Most berths and supporting facilities were designed for constructing ships smaller than those currently being built, and this caused congestion and restricted change in production techniques.

One of the aims of government assistance to shipbuilding companies has been to encourage them to increase investment in new facilities. However, as we shall see in chapter 5, relatively little of the government assistance available under the Shipbuilding Industry Act 1967 was used to improve production facilities. Considerable capital expenditure did, however, take place at Harland and Wolff, Scott Lithgow and Swan Hunter and, on a smaller scale, at Appledore.

1.2.6. Relationships and conflict.

The way in which all the above components of shipbuilding activity interact obviously has profound implications for the success of a company and for the effect which government involvement will have. Obvious conflicts will arise where there are differing objectives: management may wish to improve output per head while unions will wish

14. Booz-Allen Report, 1973, pp.145-6.

to maximise the number of their members employed. Both groups are, however, likely to have a common interest in the survival of a yard and may cooperate in seeking government assistance. There may also be differing interests within a union between yard shop stewards and national officials, as is illustrated by the role of national officials after the collapse of UCS (see section 6.3.5.)

The introduction of new equipment or new processes may profoundly affect the total labour force required or the relative need for specific skills. Because there is no recognised skill as a 'shipbuilding worker' and because the fragmentation of largely historically based trades is reflected in the multiplicity of trade unions, any dispute about redundancies or about who should operate new equipment may develop into an inter-union dispute. To avert such disputes management may accept manning levels which mean that the maximum benefit is not obtained from new investment.

Demarcation between the trades has been exacerbated for historical reasons. Prior to the period covered by this study it was common for workers to be laid off on completion of a ship - this could arise even when a new keel could be laid immediately after a launch, since some trades, such as outfitting, were only required at some stages of construction. Apart from the obvious result that this encouraged workers to delay completion of ships, it also encouraged each union to establish certain activities as the prerogative of their members. Management effectively abdicated its role of allocating workers to particular activities and left the unions to resolve disputes among themselves. A National Demarcation Agreement which came into force in May 1969 helped to produce a decline in stoppages arising from demarcation disputes, but the existence of fragmentation of trades and unions in the UK, but not in its major competitors, has obviously affected

Table 1.5 Stoppages in shipbuilding and other industries in the UK
(days lost per 1000 employees through stoppage in progress
in year).

Industry	Annual average 1960-4	1965	1966	1967	1968	1969	1970	Annual average 1965-70
Shipbuilding and marine engineering	1,450	800	150	750	1800	1000	2050	1100
Port and inland water transport	1,200	750	1000	4450	850	3500	6850	2900
Motor vehicles	n.a.	1750	700	1000	1800	3100	2150	1750
Coal mining	650	850	250	225	125	2700	3050	1200
All industries and services.	140	130	110	125	200	300	475	225

Source: Cmnd 4756, table 18.1, p.89.

the ability of the UK industry to adapt and to improve productivity sufficiently to compete in world markets.

A high incidence of strikes obviously affects both an industry's profitability and its ability to deliver on time. Unreliable delivery performance has been regarded by shipowners as a major weakness of the UK shipbuilding industry.¹⁵

Table 1.5 shows that days lost in shipbuilding and marine engineering were well above the national average for all industries and services during 1965-70, with only docks, motor vehicles and coal mining being worse, though there was an improvement in shipbuilding's relative position between 1960-4 and 1965-70. Shipbuilding also compared badly

15. Booz-Allen Report, 1973, chapter 7.

with other UK industries in terms of number of stoppages (see table 1.6). More importantly, industrial relations has not been a problem for major European shipbuilders, who have experienced relatively few strikes.

Table 1.6. Number of stoppages per 1000 employees, UK.

	1965	1966	1967	1968	1969	1970
Shipbuilding and marine engineering	0.64	0.42	0.49	0.71	0.47	0.61
All industries and services	0.10	0.08	0.09	0.10	0.14	0.17

Source: Cmnd 4756, table 18.2, p.89

The theme of industrial relations has been treated very briefly here, but the coverage given to industrial relations in government-sponsored reports on the industry underlines the importance of good industrial relations for the prosperity, indeed survival, of the industry.¹⁶ However, it does appear that there is little the government itself can do to affect industrial relations within firms, though where the government itself controls a shipyard, as at Harland and Wolff, it has tried to improve relations by encouraging worker participation. Government involvement can in certain circumstances make industrial relations worse: where government policy is concerned with making the industry more competitive and this has required redundancies, this may conflict with government objectives of improving industrial relations and avoiding high localised unemployment. It will be argued in this study that this dilemma can only be resolved if the government has a specific and visible policy for dealing with the social consequences of industrial change.

16. See Cmnd 2937, chapters 20 and 21; Cmnd 4756; Booz-Allen Report, 1973, chapter 16.

1.3. SHIPYARDS AND THEIR ENVIRONMENT.

Even from the above discussion of activities within the shipbuilding industry it has become clear that shipbuilding is affected by influences from outside the shipyard walls, and that what goes on inside the shipyard affects life outside. The political implications of this can be seen more clearly by discussing the social environment, but it is useful to consider first the physical and other determinants of the location of shipyards.

1.3.1 Location.

The location of early shipyards in the UK was largely determined by the availability of materials used in construction.¹⁷ When ships were constructed of wood the cost of moving timber encouraged the establishment of shipyards in estuaries whose rivers flowed through oak forests, e.g. the Thames estuary. The development in the nineteenth century of iron-hulled and later steel-hulled ships and of steam power, in which Britain played such an important role, encouraged the setting up of shipyards in areas with coastal coalfields and where iron and steel manufacturing were well-developed, such as Clydeside and the North-East of England. Thames estuary yards suffered a complete decline. However, not all the yards had their location completely determined by the availability of the new materials: there were important yards at Belfast, Barrow and Birkenhead, of which only Barrow was on a coalfield.

The distribution of shipbuilding in the UK still reflects these nineteenth century influences. However, since then the significance of

17. This section draws on Riley, 1973, pp.196-210; see also Parkinson, 1960, pp.7-9.

steam power has declined and more efficient methods of transport have reduced the cost of moving many bulky materials. Since the Second World War there has been a considerable increase in the number of coastal steelworks in other countries, especially Japan, which enables steel supplies to be moved to shipyards by water. As we saw in section 1.2.4, suppliers of equipment for modern ships are specialist firms for whom shipbuilders are only one of many customers. Although in the UK the historical pattern of trades has remained of significance to the present day, in the international context changes in the method of assembly, including prefabrication, have reduced the requirement for local skilled labour. This, in addition to rapidly rising wages in industrialised countries, has encouraged the establishment of yards in less industrialised countries. West European nations other than the UK have nevertheless managed to increase their output in absolute size, if not in terms of share of a growing market.

The importance of proximity to materials has therefore declined, but this has not been replaced by market orientation. Although up to and including the period covered by this study British shipyards expected British shipowners to provide their basic order book, it is clear that British shipyards must be able to compete in an international market for both UK and foreign orders if they are to survive. Given the nature of the product, transport costs of the completed ship are negligible, so there is no disadvantage to a customer if he literally has his ship built half way round the globe.

Apart from the obvious requirement for deep water for launching - a requirement which many British yards no longer fulfil

for larger ships - there are therefore few restrictions on the location of new shipyards. This has led Riley to classify shipbuilding as a 'footloose' industry.¹⁸ The significance of this is not simply that the present distribution of shipbuilding within the UK is a product of geographical inertia rather than continuing locational advantages, but that the industry is now footloose on a global scale, with the level of national production depending on competitiveness in the world market. As Riley remarks, 'If prices are too high in one area or yard, there will be contraction, while in other areas there will be expansion and the construction of new docks.'¹⁹ Neither the present British shipbuilding areas nor the UK as a whole any longer have any special locational advantages.

1.3.2 Shipbuilding at national and regional level.

Considered in terms of turnover and number employed, the UK shipbuilding industry is fairly insignificant compared to many other industries and, indeed, some single companies. The Booz-Allen Report pointed out that in 1971 the twelve major shipbuilding companies would have ranked as 56th in turnover and 123rd in capital employed if considered as a single company.²⁰ The twelve companies employed 0.25% of the total UK working population, and if they had been considered as single company they would have been 18th among UK industrial companies in terms of employees.

Shipbuilding has clearly absorbed amounts of central government attention out of all proportion to these national figures. To understand why, we must look at the distribution of the industry within the UK.

18. Riley, 1973, pp.196-210.

19. Riley, 1973, p.210.

20. Booz-Allen Report, 1973, p.107.

Major shipyards are overwhelmingly concentrated in development areas (Vosper Thornycroft in Southampton and Portsmouth being the only exception), and within development areas there is a concentration in special development areas such as Clydeside and Tyneside (see fig.1.9). As we might expect from this, unemployment in the areas in which shipyards are located is generally high (though assisted areas and areas of high unemployment need not coincide: Coventry, with unemployment well above the UK average in 1976 is not in a development area, whereas Aberdeen, which has below UK average unemployment, is in a development area). Shipyards do, in fact, tend to be located within development areas in places with above the average unemployment rate for the development area as a whole. The percentage of total unemployment in such areas which is accounted for by shipbuilding is, of course, considerably higher than the UK figure, so we would expect the local effects of closure to be much more severe. Table 1.7 shows the proportion of total employment rate for major shipbuilding areas shortly before the package of assistance to shipbuilding embodied in the Shipbuilding Industry Act 1967.

Table 1.7 Employment situation in major shipbuilding areas.

Area	Approximate % of total employment in area engaged in manufacturing industry, mid-1964	% of total employment in area in shipbuilding and shiprepair, mid-1964	Unemployment Rate (%) in area, August 1975
Upper Clyde	40	2.4	3.1
Lower Clyde	35	6.0	4.0
Dundee Area	49	1.1	2.5
Tyne (incl. Blyth)	39	6.0	2.8
Tees	49	2.7	2.7
Wear	42	7.9	3.9
Barrow-in-Furness	58	15.0	3.1
Mersey	36	7.1	3.0
Southampton	34	4.7	1.2
Belfast	37	5.0	5.0

Source: Cmnd 2937, table 6, p.98

Note: For comparison, the UK unadjusted unemployment rate for August 1975 was 1.4%

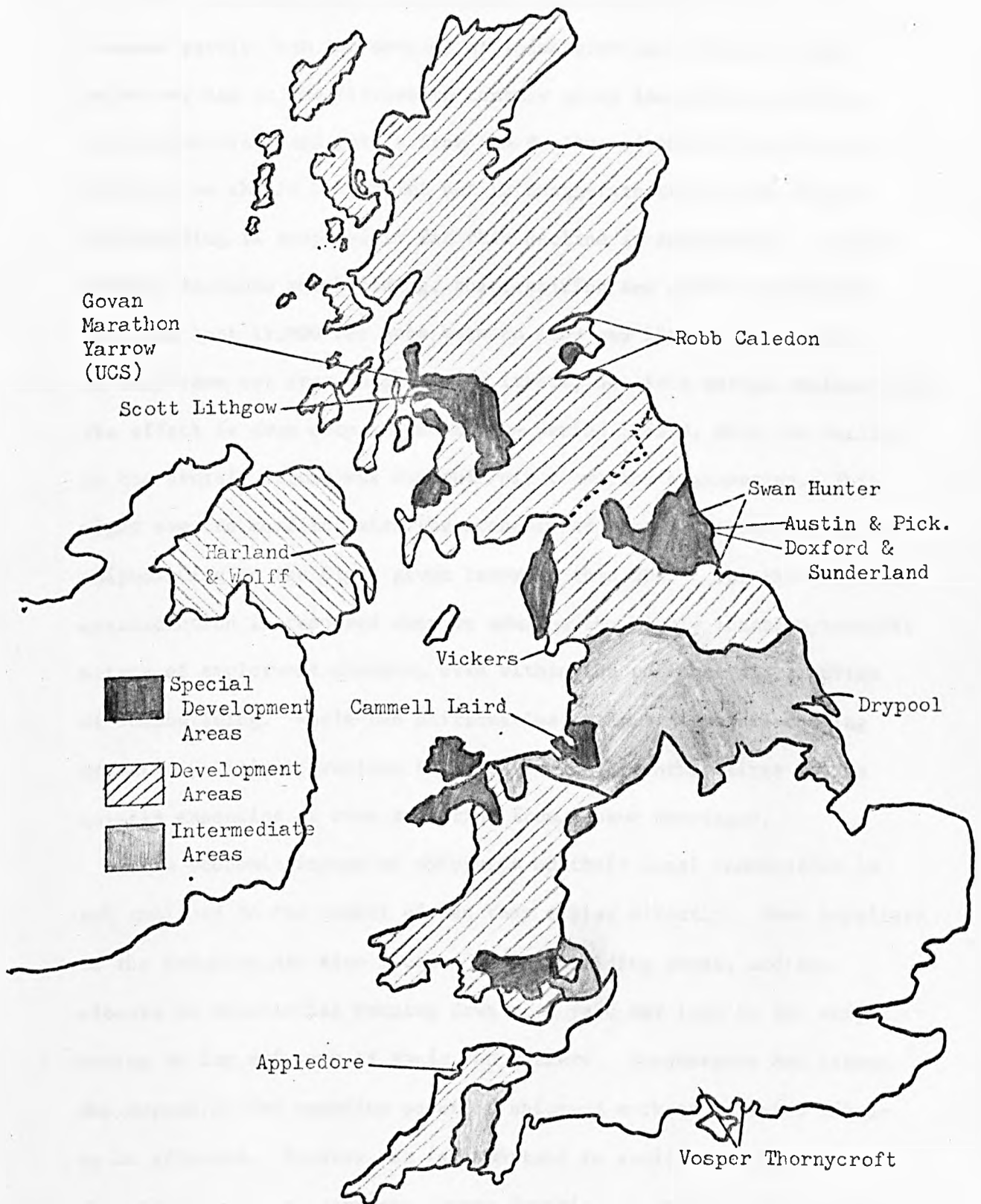


Fig. 1.9 Location of major shipyards in relation to assisted areas

Note: Assisted area boundaries are as at 1976.

Source: Base map showing assisted area boundaries taken from Department of Industry pamphlet 'Areas for Expansion', 1976.

The relatively high unemployment rate for many of these areas stemmed partly from the decline of industries such as coal, which as we saw had in the nineteenth century given locational advantages to shipbuilding, and partly from the decline of shipbuilding itself. However, we should be careful not to exaggerate the extent to which shipbuilding is responsible for this decline in employment. In West Central Scotland shipbuilding, shiprepairing and marine engineering combined lost 19,000 net jobs between 1959 and 1968, but the bulk of this came not from shipbuilding itself, but from marine engineering.²¹ The effect is even more marked in the period 1963-8, when the decline in the overall figure was due entirely to marine engineering. This might seem to conflict with the accounts of sizeable redundancies in shipbuilding on the Clyde given later in this study, but this apparent contradiction is resolved when we examine the highly location-specific nature of employment changes, even within the regional distribution of shipbuilding. While the difficulties of some firms are causing dramatic political problems for the government, other firms may be quietly expanding or even suffering from labour shortages.

The economic impact of shipyards on their local communities is not confined to the number of men they employ directly. Many suppliers to the industry are also located in shipbuilding areas, and the closure or substantial running down of a yard may lead to the suppliers having to lay off some of their own workers. Shopkeepers and others who depend on the spending power of shipyard workers are also likely to be affected. However, it is important to avoid assuming that the effects of a closure are always drastic enough to justify saving the yard at any price. Despite the importance which politicians attach to these consequential effects of closure, we do in fact have

21. For a more detailed analysis of this point see Hogwood, 1976a.

very little information of how large they are, and there is a natural tendency for the figures to be exaggerated in the absence of firm figures (for, example, after the UCS collapse; see section 6.3).

A shipyard's interaction with the local community is not confined to its employment impact. The existence of a yard imposes a need for adequate transport to work. The nature of housing can have an important impact on the kind of policies which a government can introduce to cope with the decline or closure of a shipyard. Government policy at local or national level to provide relatively cheap council house accommodation with its associated waiting lists, and to improve security of tenure in the private rented sector has provided a disincentive to leave existing accommodation to seek a new job. It should be noted that this disincentive operates not only between regions, but between local authority areas within the same region. About 91% of unemployed men and 95% of unemployed women are unwilling to seek work beyond daily travelling distance from their present homes.²² This reluctance is not entirely due to the effects of housing policy and reflects other economic costs and social values associated with moving. It does, however, provide a pointer to why governments have concentrated on maintaining existing jobs in existing communities. If incentives to promote labour mobility are to be effective, they have to be linked to changes outside the traditional confines of 'industrial' and 'regional' policy: 'Linking housing to employment policies, designed to encourage mobility might therefore mean radical changes in the financing and purposes of public housing'.²³

22. Roberti, 1975, p.53; see also Craven, 1975.

23. Craven, 1975, p.124.

Shipbuilding is affected by a vast number of policies which are designed to affect the whole country and all industries, while some are aimed at particular regions or particular industries. These possibilities are illustrated in table 1.8. Shipbuilding is affected by nationwide policies on such matters as company law (though with some differences in Scotland), taxation, safety, pollution and labour (e.g. over redundancies). Shipbuilding's concentration in assisted areas makes it eligible for the whole range of regional grants and loans in addition to those specifically available to shipbuilding. The word 'explicit' in the column headed 'No explicit spatial discrimination' in table 1.8 is of significance, because although the Shipbuilding Industry Act 1967 was defined in terms of aid to a specific sector it clearly had a spatially skewed impact.

Table 1.8 Spatial and sectoral discrimination in policies affecting Shipbuilding.

	No explicit spatial discrimination	Spatial discrimination
No explicit sectoral discrimination	e.g. taxation, safety, labour, pollution	Regional policy
Sectoral discrimination	e.g. Shipbuilding policy	e.g. aid to individual yards

Finally, in addition to benefiting from industrial incentives at national level, regional level and industry level, many shipyards have also, as we will see in subsequent chapters, received aid specifically directed to dealing with their individual problems.

1.4 SHIPBUILDING AND THE WORLD ECONOMY.

1.4.1 How demand for ships is determined.

Demand for merchant ships, unlike demand for, say, washing machines, does

not depend directly on consumer demand, but is derived from trade in other commodities. Thus demand for new ships will depend on the size of the existing fleet, the scrap rate of the existing fleet, and the growth of world trade in various commodities, which will in turn depend on relative demand and supply and rates of growth of national income in various countries. Both the scrap rate and the rate of growth of national incomes are subject to changes which can result in large fluctuations in demand for ships. To be more accurate, demand for new ships depends on expectations about the growth in world trade; because of the length of time taken to construct a ship - or even more a series of ships - estimates have to be made of the likely demand for (and supply of) ships at the time when the ship is completed rather than at the time it was ordered. If these estimates turn out to be too optimistic, as with the orders for tankers placed by Maritime Fruit in 1973, the shipowner may be left with ships with no cargo to carry and cancellations may result. For any yard or country contemplating constructing or replacing shipbuilding facilities the problem is one stage further back, since the demand for new capacity depends on expectations about demand for ships in future years and about other new capacity which may be constructed elsewhere.

Discussion of demand in terms of total number or total tonnage is not very helpful, both because of the nature of the measurements (see appendix to this chapter) and because what matters is a yard's ability to produce a type of ship for which there is demand. Because of their relatively narrow rivers many British yards were incapable of building the very largest ships which made up a large proportion of

the demand in the late 1960s and early 1970s. An important point to note is that demand for a particular kind of ship, such as large tankers, may well be more volatile than total demand for ships.

The share of world demand obtained by any one yard or country will depend on its relative competitiveness in terms of price and delivery; this will in turn depend on the quality of labour and management, industrial relations, quality of facilities and reliability of suppliers (see section 1.2). Another influence on the share obtained will, of course, be the capacity available to construct the ships required. Not all parts of the market for ships are open to UK shipbuilders; the Booz-Allen Report estimated that nearly one-third of the Western world's demand for new vessels was not open to international competition.²⁴ Even where demand is open to international competition the relative competitiveness of a country is affected by the international pattern of government support for shipbuilding (section 1.4.3).

However, even with these reservations the relative performance of the UK has been disappointing. Table 1.9 shows that while there was no clear decline in absolute terms of output in gross registered tons there has been a steady decline in the UK share of a rising world output. Catherwood suggests that 'A declining volume with an increasing market share is normally a more healthy sign than an increasing volume and a declining market share. In the latter case, the business is usually in for some horrible shocks at the next decline in the trade cycle'.²⁵

24. Booz-Allen Report, 1973, p.65.

25. Catherwood, 1966, p.74.

Table 1.9. World and UK output and UK market share 1947-71

Year delivered	Ships delivered (000 grt)		Uk share (%)
	World	UK	
1947	1,880	944	50.2
1948	2,482	1,213	48.9
1949	3,114	1,353	43.4
1950	3,254	1,389	42.7
1951	3,557	1,340	37.7
1952	4,211	1,264	30.0
1953	4,938	1,250	25.3
1954	5,450	1,496	27.4
1955	4,967	1,322	26.6
1956	6,291	1,457	23.2
1957	8,117	1,421	17.5
1958	9,059	1,464	16.2
1959	8,697	1,383	15.9
1960	8,382	1,298	15.5
1961	8,058	1,382	17.2
1962	8,182	1,016	12.4
1963	9,028	1,096	12.1
1964	9,724	808	8.3
1965	11,763	1,282	10.9
1966	14,105	1,074	7.6
1967	15,157	1,188	7.8
1968	16,845	1,047	6.2
1969	18,739	828	4.4
1970	20,980	1,327	6.3
1971	24,388	1,233	5.1

Sources: Cmnd 2937, appendix K, p.185; Booz-Allen Report, 1973, Exhibit 30, p.91.

Table 1.10 World Market share of leading Shipbuilding Countries.

grt completed as a percentage of total

	JAPAN	SWEDEN	WEST GERMANY	UK	FRANCE	NORWAY	SPAIN	OTHER	WORLD
1955	11	10	19	27	7	3	1	22	100
1957	28	8	15	18	6	2	1	22	100
1959	20	9	14	16	5	3	2	31	100
1961	21	9	13	17	7	4	2	27	100
1963	25	11	12	12	6	4	1	29	100
1965	42	11	9	11	4	4	2	17	100
1967	48	9	7	8	3	3	2	20	100
1969	49	7	10	4	4	3	3	20	100
1971	46	8	8	5	4	4	3	22	100

Source: Booz-Allen Report, 1973, exhibit 31, p.92

The UK was in fact the only leading shipbuilding country which achieved no growth in the period 1955-71. As table 1.10 shows the bulk of the increased world output has come from Japan.

There is one aspect of the demand for new ships which is directly under the control of the UK: the demand for new naval ships. As table 1.11 shows, naval work formed an important though fluctuating proportion of total UK output by value in 1957-64. However, a contracting naval programme since then has, if anything, increased instability in the industry. The government, in placing the remaining

orders has actively followed a policy of concentrating naval shipbuilding in a few specialised yards. As table 1.11 illustrates, UK shipyards have traditionally undertaken work for foreign navies. However, their ability to continue to do so has been reduced by the policy of Labour governments of banning the supply of warships to regimes which are abhorrent to them, such as South Africa and post-Allende Chile. Thus UK shipyards are affected by government defence and foreign affairs policy as well as by economic and industrial policies.

Table 1.11 Naval work as percentage of total output by value, 1957-64.

	Merchant ships fm ¹	Royal Navy fm ²	Other Naval fm ^{2,3}	Naval work as %age of total	Royal Navy work as percentage of total.
1957	200	18.7	3.4	9.9	8.4
1958	200	23.3	8.5	13.7	10.0
1959	200	26.1	12.1	16.0	11.0
1960	210	25.0	7.6	13.4	10.3
1961	220	24.6	4.7	11.8	9.9
1962	140	30.7	5.1	20.4	17.5
1963	140	29.5	4.5	19.5	16.9
1964	106	26.9	5.9	23.6	19.4

Source: Cmnd 2937, table 3, p.32

Notes: 1. Approximate. Ships over 100 gross tons. Includes fleet auxiliary vessels.
2. Excludes value of weapons systems and fleet auxiliary vessels.
3. Estimated.

1.4.2. Forecasting.

Two features of shipbuilding demand emphasise the desirability of firm forecasts: (1) the time taken to build ships (see fig.1.8) or to construct new facilities; (2) the size of investment involved in the construction both of ships and of new building facilities. Unhappily,

demand is subject to vast fluctuations within a short period which can quickly render forecasts inaccurate, sometimes even before they are published - a classic example is the EEC's Report on the Long and Medium Term Development of the Shipbuilding Market.²⁶ Demand forecasts are very sensitive to assumptions about growth of world trade, while demand for particular types of ship may be affected by price changes in the commodities transported. Although this section concentrates largely on demand forecasting, a shipbuilder will try to forecast a range of other items, such as availability of skilled labour and the future rate of inflation - particularly important where he has taken on fixed price contracts. An important feature of most causes of changes in demand is that they are not for the most part within the control of a single national government and even some which are, such as the exchange rate, are unlikely to be used solely to aid shipbuilding.

Demand forecasts will affect the kind of assistance governments will be prepared to give, so it is of interest to examine the forecasts contained in some of the government-sponsored reports on the industry. The forecast, if it can be dignified with that name, contained in the 1961 report of the Shipbuilding Advisory Committee on Prospects was very crude.²⁷ Basically it assumed that UK shipyards would get most of the orders of UK shipowners plus a share of foreign orders. The assumption about UK shipyards taking the bulk of UK shipowners' orders turned out to be completely wrong. In 1965 only 43% of tonnage ordered for British registration went to UK yards;

26. EEC, 1972.

27. SAC Report, 1961; see also section 3.4.

during 1966-67 68.7% of UK vessels (86.4% of tankers) were imported. The SAC Report's assumptions illustrate the complacency of the UK industry at the beginning of the 1960s and the failure to appreciate the international nature of the market in which the industry was now competing.

The Geddes Report in 1966 emphasised this international market.²⁸ The Geddes Committee commissioned forecasts from a firm of consultants, Science in General Management Ltd. Their forecasts of world demand were based on analysis of past trends in the demand for the main types of ship with adjustments where there were reasons for believing that experience in the future might be different. The overall estimate for world completions was 15-19m grt by 1972/5. For the UK, the Report presented three possible outcomes: (1) decline (output 1m grt); (2) holding on (1½m grt); (3) growth (2½m grt). However, it soon became clear that the Geddes forecasts were a considerable underestimate: output was 15.16 m grt by 1967 and by 1970 output had exceeded the top end of the range forecast for 1972/5. Despite this larger than forecast growth in world demand and despite government assistance, the UK industry fell into the category described by Geddes as 'decline'.

The Booz-Allen Report in 1973 presented a forecast based on a model which included the main determinants of world ship requirements,²⁹ Although the report commented on the sensitivity of its assumptions to changes in the forecast rate of growth of world trade, the demand forecast itself was based on a single figure for the growth of world trade.

28. Cmnd 2937, especially chapters 5 and 6.

29. Booz-Allen Report, 1973, chapters 1-3.

Nine possible futures were outlined for the UK industry based on different assumptions about its future performance and the level of government assistance. However, these possible futures were also based on the surely unjustified assumption that foreign competitors would not achieve substantial cost reductions through improved performance over existing levels (for further comments see section 5.6). While the report was still being considered by the Department of Trade and Industry, a surge of tanker orders suggested that the forecast was going to be too pessimistic; however, the savage cutback in the demand for tankers following the Arab-Israeli War in 1973 and the oil price rise made the forecast seem too optimistic (see fig.6.1).

The lesson of these and other forecasts is that single figure forecasts or forecasts within a wide range are almost certain to be wrong or vague or both. To such an extent is this the case that certainty of deviation from the forecast seems at least as important as the size of the forecast itself. Indeed, as table 1.12 shows, even forecasts made at about the same time contain a wide range of estimates. This suggests that the most useful type of forecast is not a single figure (or rather a collection of figures for different types of ship) nor a range, but a description of possibilities with the assumptions on which they are based made explicit and with the effect of changes in these assumptions outlined.

Table 1.12 Forecast annual requirements for new ships (million grt)

Study	Annual average demand	
	To 1975	1975-80
Shipbuilding Association of Japan	33	33
EuroEconomics	23	27
Association of West European Shipbuilders	23	29
Maynard PRC	17	23
European Economic Commission	15	20
Mean of above studies	22	26
Booz-Allen and Hamilton	20	27

Source: Booz-Allen Report, 1973, p.33.

The implication of such forecasts for the shipbuilder would be that his plans should be robust against plausible changes in demand either by building a type of ship for which demand is always likely to be steady, as Austin and Pickersgill appear to have been successful in doing in the late 1960s and the 1970s or by ensuring the flexibility to construct several types of ship. A further implication is that shipbuilders (and government) should be reluctant to commit large sums on the basis of assumptions about one kind of demand; for example, Harland and Wolff's building dock, ideal for building giant tankers, for which demand collapsed in the mid 1970s, may prove to be a less useful investment than Scott Lithgow's building mat.

Forecasting clearly has political implications. The above analysis suggests that governments too should seek to make their plans robust against all too likely deviations from forecast; the extent to which they have attempted to do so will be analysed in the subsequent chapters.

Forecasting is not politically neutral in an international context either. As table 1.12 clearly shows, the Japanese have forecast greater growth in demand for new ships than their competitors, and this has been reflected in the greater growth of Japanese shipbuilding capacity. As both the Japanese and their competitors have recognised, any international agreement about reducing world over-capacity will have to start with agreement about forecast demand.

1.4.3. Involvement by foreign governments in their shipbuilding industries.

That their competitors have been more heavily subsidised than themselves has been a constant cry of British shipbuilders.³⁰ This is a plea which deserves serious consideration, and the best way to examine it is to look at the evidence, an approach which has not always been adopted by those who argue that Britain is at a disadvantage. There are measurement difficulties involved in making a complete cross-national assessment. The wide range of measures which can be used to assist shipbuilding was illustrated in a 1965 report by the OECD which classified measures into six groups, many of which had several subdivisions.³¹

A. Measures to protect the national market.

- (a) customs duties
- (b) import restrictions
- (c) preferential treatment granted to national owners for ships built in national yards.

B. Direct subsidies for shipyards.

C. Assistance in the field of taxation.

- (a) exemptions from or rebates of customs duty
- (b) tax exemptions or rebates.

D. Assistance in the field of credit and credit insurance.

- (a) assistance for the equipment of yards
- (b) assistance for the purpose of facilitating the production activities of yards.

30. See for example, HC347, Session 1971-2, paras 97-8; HC347-I, Session 1971-2, Q.486-91, 885.

31. OECD, 1975.

E. Other forms of public intervention.

- (a) assistance to other sectors affecting shipbuilding
- (b) public purchasing
- (c) public ownership

F. Remedial policies for the sector.

It will be appreciated that it would be difficult to assess the value of many of these measures individually and even more difficult to assess the total value of all the measures for one country. However, it is possible to make some comments about Britain's relative position. It is important to bear in mind that if it is shown that some of Britain's competitors have at times had the benefit of more advantageous measures than those available to UK shipbuilding this does not in itself prove that this is the sole cause of the poor position of the UK - it could be that even in the absence of discriminatory measures the British shipbuilding industry, or to be more accurate, parts of the British shipbuilding industry, would have failed to be competitive.

Some of the measures listed above, especially A, might have the effect of excluding UK shipbuilders completely from some national markets. The Booz-Allen Report argued that in Japan, Italy, Spain, the USA and, to a lesser extent, France legislation, administrative practice or economic strength ensured that these countries bought ships only from their own shipbuilders and estimated that the fleets of those countries constituted 29% of world demand for new ships.³² To this extent the claims that the UK industry is at a disadvantage are justified; it is arguable that the existence of a secure home market provides a cushion for an industry which is not now available to UK shipbuilders. However, the question of government aids in that part of world demand for ships open to international competition remains to be considered.

32. Booz-Allen Report, 1973, p.59.

The available evidence suggests that, while during the early 1960s the UK industry did not receive as much benefit from aid measures as most of its competitors, by the early 1970s the UK industry was receiving aid of similar if not greater value than its competitors. In 1965 the OECD published a report which outlined the measures of assistance available to some member countries (Belgium, Canada, Denmark, Germany, France, Italy, Japan, Netherlands, Norway, Spain, Sweden, Turkey, UK, US) at the end of May 1964 or which had been available prior to that date.³³ Although the report itself does not draw up a league table it is clear that the measures available in Canada, France, Italy, Japan, Spain and the United States were much more favourable than those available to UK shipbuilders. The OECD report commented that 'The historical and traditional role of the United Kingdom in the provision of shipbuilding services is probably the reason why the United Kingdom Government policy has been to keep both shipping and shipbuilding as free from restriction as possible'.³⁴ The only government intervention which the report considered to have had a decisive effect on the output of the UK industry and its role in the international market was the government Credit Scheme (considered in section 3.6), which had already been terminated by the time the report was published.

By 1972, however, the UK had introduced a wide range of assistance to the shipbuilding industry - the grants, loans and credit guarantees under the 1967 Shipbuilding Industry Act, rescue aid for a number of shipyards, and, in 1972, direct subsidies. The effect of all this

33. OECD, 1965.

34. OECD, 1965, p.90.

assistance, according to the Booz-Allen Report, was that UK subsidy and export credit arrangements compared favourably with those of other shipbuilding countries except the USA (that bastion of free enterprise !)³⁵. However, as the report pointed out, the situation fluctuated from year to year according to the different credit terms and subsidies offered by different governments.

The relatively much more favourable position of the UK shipbuilding in terms of the pattern of international government assistance by 1972 was reflected in the switch from the UK government's traditional stance of trying to eliminate discriminatory practices. The OECD was the international body involved in attempting to reduce the level of subsidies. However, at an OECD meeting at the beginning of 1972 the UK representatives, while still supporting the principle of reduction in subsidies, were unwilling to commit themselves to the abolition of subsidies by 1974. The DTI feared that a very rapid reduction of aid would have a troublesome effect on firms which were not currently competitive.³⁶ Further evidence of the UK's reluctance to cooperate in international measures to reduce subsidies came at the end of November 1973 when Britain had serious reservations about a number of recommendations of the EEC for limiting state aids under a proposed new directive (to which France was also opposed). Similarly, in 1975 the EEC toned down its original insistence that emergency shipbuilding aids must be subject to its approval in advance in response to mainly British objections.

The relative decline of the UK shipbuilding industry cannot, therefore, be blamed solely on 'unfair' government assistance to its competitors. Clearly UK shipbuilders have effectively been excluded

35. Booz-Allen Report, 1973, p.59.

36. HC 347-II, Session 1971-2, Q.2290-1.

from some parts of the world market and particularly in the early 1960s many of its competitors received more favourable assistance. However, even when UK shipbuilding received aid comparable to its competitors its relative decline continued. By 1972 some parts of the UK industry had become dependent on continuing government assistance for their survival.

1.5 THE SHIPBUILDING POLICY PROCESS.

The preceding sections have shown that there is a wide range of influences on shipbuilding, from the impact of new technology to international politics. Are there any themes which can draw these topics together? There seem to be at least four:

- 1. The range of influences which affect the success of UK shipbuilding is wide, and direct government involvement is only one of such influences.
- 2. The government's ability to affect those other influences ranges from its ability to change its own policy on, say, regional aid to its comparative impotence in dealing with a sharp fall in the demand for oil tankers.
- 3. The impact of these influences changes over time, with various degrees of predictability.
- 4. The success or otherwise of shipyards can have important implications for the communities in which they are located and for other government policies.

What are the implications of all these interactions for government policy to meet a problem affecting the industry? The first difficulty is to decide 'What is the problem?'. Lindblom points out that 'Policy

makers are not faced with a given problem.³⁷ Instead they have to identify and formulate their problem'. The observable problem may be that a shipyard is short of cash, but what is the 'real' problem - inflation, industrial relations, high localised unemployment? Lindblom's view is that

'there is all kinds of room for controversy over what "the problem is", and no way to settle the controversy by analysis. Here already, then, is a limit on analytic policy making and a necessary point of entry for "politics" and other "irrationalities" in policy making'. 38

The view taken in this study is that analysis can at least separate the two different aspects of 'a problem': 'what is the state of affairs which the government wishes to avert', and 'what brought about this state of affairs'. Since policy to avert a state of affairs need not necessarily require tackling the causes of that state of affairs, Lindblom's politics do enter into the definition of the problem. However, it is important to maintain the distinction between the two aspects of a problem, otherwise a government may adopt a particular policy to deal with a problem in the short term, but if the initial causes of the situation remain in force the policy may be ineffective. An example would be where the government gives a grant to a shipyard in difficulties to avert high localised unemployment but does nothing about the causes of the difficulties: if these difficulties remain in force the problem will recur. However, attempting to tackle these causes need not necessarily avoid the undesired state of affairs: given its existing output, making a yard more competitive might involve reducing the size of the labour force.

37. Lindblom, 1968, p.13.

Governments need information to enable them to deal with these problems. We can categorise these information needs into information needed to identify a problem, information needed to formulate a policy, information needed to implement a policy and information about the impact of a policy, though we may find that some kinds of information will be needed at more than one stage. There is, indeed, a danger that if information collection and appraisal for each of these activities is carried out by a different organisation there may be wasteful duplication or harmful omissions. However, information collection and appraisal are not costless: at some point the likely improvement in policy making from more information will be outweighed by the cost of obtaining the information. For decisions about an industry such as shipbuilding, with all the interactions shown in fig.1.4, the costs of obtaining the information needed under a 'rational-comprehensive' model of policy making (table 1.13) or under the Simonian pure rationality model (table 1.14) would tend to infinity. Even if all the information required was available, there may be ambiguity about how it should be interpreted, or its complexity may be beyond our ability to analyse.³⁹

In contrast to the vast information requirements of the rational-comprehensive and pure rationality models, Lindblom asserts it as a positive virtue of his successive limited comparisons (or incremental) model (table 1.15) that 'simplifying by limiting the focus to small variations from present policy makes the most of available knowledge'.⁴⁰ In subsequent chapters the information available to the government at various

39. March and Olsen, 1975, pp.154-5.

40. Lindblom, 1959, p.85.

stages will be outlined, and in chapter 8 the role of information in the shipbuilding policy process will be examined in detail.

Table 1.13 The rational-comprehensive model.

-
1. Clarification of values or objectives is distinct from, and usually prerequisite to, empirical analysis of alternative policies.
 2. Policy formulation is therefore approached through means-end analysis: first the ends are isolated, then the means to achieve them are sought.
 3. The test of a 'good' policy is that it can be shown to be the most appropriate means to desired ends.
 4. Analysis is comprehensive; every important relevant factor is taken into account.
 5. Theory is often heavily relied upon.
-

Source: Lindblom, 1959, p.81.

Table 1.14 Simon: pure rationality model.

-
1. Three types of activity:
 - (a) intelligence activity: finding occasions calling for a decision;
 - (b) design activity: identifying all possible types of relevant action;
 - (c) choice activity: selecting the best course of action.
 2. Characteristics of rational decision-making:
 - (a) the decision-maker would know all the possible alternative courses of action open to him;
 - (b) he would foresee the consequences which would follow from each (or at least, be able to attach a probability to each consequence);
 - (c) he would relate each consequence to a complete and consistent value-system or preference-ordering system;
 - (d) make an optional choice from all the alternative courses of action.
-

Source: See Simon, 1976.

Table 1.15 Lindblom: successive limited comparisons (or incremental) model.

-
1. Selection of value goals and empirical analysis of the need for action are not distinct from one another but are closely intertwined.
 2. Since means and ends are not distinct, means-end analysis is often inappropriate or limited.
 3. The test of a 'good' policy is typically that various analysts find themselves directly agreeing on a policy (without their agreeing that it is the most appropriate means to an agreed objective).
 4. Analysis is drastically limited:
 - (a) important possible outcomes are neglected;
 - (b) important alternative potential policies are neglected (comparisons are limited to those policies that differ in relatively small degree from policies presently in effect);
 - (c) important affected values are neglected.
 5. A succession of comparisons greatly reduces or eliminates reliance on theory.
-

Source: Lindblom, 1959, pp.81,84.

The kinds of information a government seeks to collect will also depend on what kinds of consequences of its policy the government wishes to explore. Government decisions about one issue can have important consequences for government policy in other fields. How far should decision makers dealing with one problem take these consequences into account? The rational-comprehensive model and the pure rationality model would include all the consequences, which would make the analysis prohibitively expensive, particularly because of the loops of influence involved (see fig.1.4). Lindblom's advice would be to ignore even some important consequences.

Clearly, our views about all the points considered above will depend on what model of decision making we have in mind. Should we view the government as setting objectives, reviewing all the alternatives and selecting the best policy to fulfil its objectives (see table 1.13)? We do not need all the evidence collected here to tell us that British government policy on shipbuilding was not formulated in this way. Similarly, Simon himself recognises that limits to the skills of decision makers, limits to knowledge and limits to values mean that his pure rationality model (table 1.14) is rarely, if ever, an accurate account of how decisions are actually taken.⁴¹ However, it will be of interest to see whether a 'constrained' or 'bounded' rationality model can serve as a useful framework for analysing UK government involvement in shipbuilding.

Lindblom's successive limited comparisons model (or 'incremental' model as it is called in one of its variants) might seem to be a more suitable model for our purposes, since we are concerned with a fairly large number of separate decisions. This would not be the same as endorsing incrementalism as a good prescriptive model. Even the value of the model as a relevant description is affected by crucial assumptions about terminology, in particular about the word 'increment' itself. Another important point to bear in mind is that not all the decisions which will be examined are of the same kind in terms of scale, lumpiness and reversibility: a decision to give several million pounds to construct a building dock is different in kind from a decision to

41. Simon, 1976, pp.39-41.

pay wages for a week to delay the liquidation of a company. The first decision would require much more analysis.

Although the rational-comprehensive model has been ruled out as a useful one for the purposes of this study, this does not imply that governments do not have objectives. Governments often state that they see their policies as fulfilling certain objectives. We should not, of course, simply take such statements at face value but look to see whether other or different objectives are also involved. In other words, by examining the impact of policies we can try to compare the objectives which appear to be served in practice with the government's stated aims. Nor should it be assumed that decisions involving the same activities are necessarily fulfilling the same objectives; the same sum of money put into the same firm at different times may be concerned with different objectives: on one occasion the long-run competitiveness of the firm may be the stated objective, while on another occasion, job preservation may be the immediate objective. There need not, of course, be only one objective involved in any one decision, and where there are multiple objectives we will want to consider how far they were mutually compatible.

Since a relatively long period is being considered here, we can examine not only the formulation of policies but also how they were implemented. Should we be critical of any failure to implement policies or should we paraphrase the subtitle of Pressman and Wildavsky's book on Implementation and discuss 'How great expectations in Whitehall are dashed on Clydeside, or, Why it's amazing that government programmes work at all?'⁴² Pressman and Wildavsky's book remains

42. Pressman and Wildavsky, 1973.

the only full-length case study of implementation. Although their book concentrates on the failure of an experimental programme aimed at creating employment for minority groups in Oakland, California, their analysis has much wider relevance. They argue that policies imply theories about a chain of causation between initial conditions and future consequences. Failures of a programme may be due to incorrect ^{design} rather than a mistake in carrying it out. Secondly, policies which depend on a long sequence of cause and effect relationships (which certainly applies to shipbuilding policy) have a particular tendency to break down, because the longer the chain of causality, the more numerous the reciprocal relationships along the links and the more complex implementation becomes. Thirdly, where implementation requires not only a complex series of events but also agreement at each event among a large number of participants then the probability of a successful outcome is again reduced. An occasion when an act of agreement has to be registered for the programme to continue is described as a 'decision point' and each instant in which a separate participant is required to give his consent is called a 'clearance'. Given an 80% probability of agreement at each clearance, the probability that no disagreement will take place over 70 clearances is computed to be little more than one in a million. One of the most important points in the book is that implementation must not be regarded as separate from policy design (and vice versa): 'There is no point in having good policies if they cannot be carried out'.⁴³

Anthony King, though dealing with the more general issue of overloaded government, also touches on the reasons why governments

43. Pressman and Wildavsky, 1973, p.143.

might fail to achieve what they set out to do.⁴⁴ One of the reasons he gives is that governments may depend on the actions of others to achieve what is wanted, and these others might fail, for some reason, to do what was required. He argues that 'If Britain has become harder to govern, it is almost certainly partly because the number of dependency relationships in which the government is involved has increased substantially, and because the incidence of acts of non-compliance by the other participants in those relationships has also increased substantially.'⁴⁵

Like Pressman and Wildavsky (though without reference or acknowledgement to them), King expresses these relationships more abstractly by using numerical examples to illustrate the point that even if there is a high probability of compliance by any one individual then if the final goal depends on a series of such acts the overall probability of success is low.

Certainly, given the complexity of the influences affecting the shipbuilding industry outlined earlier in the chapter, it will be worth examining whether such approaches can be applied to industrial policy. After examining the development of shipbuilding policy we can return to these approaches and consider whether it is useful to analyse the outcome of shipbuilding policy in terms of chains of causality, clearances, dependency relationships or non-compliance, and how far we can assess the probability of each of the main types of influence on the shipbuilding industry being favourable to the success of government policy.

It will also be useful to bear in mind some important distinctions

44. King, 1975, especially pp.290-3.
45. King, 1975, p.290.

concerning implementation. The first of these is the distinction between non-implementation and ^{unsuccessful} implementation which, though carried through in full, fails to produce the results intended.⁴⁶ Non-implementation occurs when the activities involved in carrying out a programme do not occur or occur only in part. For example, where funds are allocated by the government for assisting an industry and these are not taken up in full by firms in the industry we can say that there has been only partial implementation of the government's policy. If, however, the allocation is taken up in full but the aid fails to produce the results intended we can talk in terms of unsuccessful implementation: implementation has failed to produce the effects desired, or these effects have been offset by influences on the final outcome other than the government's programme. Similarly, partial implementation might fail to produce the effects which might be expected of even partial implementation, though if achievement of a threshold is involved full implementation may be a prior condition of successful implementation.

Potential confusion over the distinction between non-implementation and unsuccessful implementation arises because of the role of non-governmental actors in both. Thus the full allocation of funds may not be taken up because industrialists fail to submit suitable projects, and implementation may fail to have the desired effects because industrialists fail to use the money in the way expected, or management and unions fail to respond in the way expected. The conceptual distinction between non-implementation and unsuccessful implementation does, however, remain useful.

46. My attention was drawn to the importance of this distinction by Professor Richard Rose.

Another important distinction for the policy area considered here is the distinction between policy recommendations directed at and accepted by the government and recommendations directed at non-governmental actors such as management and unions. We have already seen that whether or not the government's programme is implemented and whether implementation is successful depends to a considerable extent on the response of non-governmental actors, but the importance of this response is different in kind from the implementation of recommendations directed primarily at groups and individuals other than the government. Where there is a package of recommendations, some of which are directed at the government and some of which are directed at non-governmental actors, then even if the government's programme is implemented in full and achieves the immediate effects expected of it, then the outcome envisaged in the package of recommendations may fail to occur if recommendations directed at others are not implemented or are unsuccessfully implemented.

Any attempt to evaluate the 'success' of government policy will be complicated by the ambiguity of the government's objectives. Weiss argues that evaluation is probably not worth doing 'When people who should know cannot agree on what the program is trying to achieve. If there are vast discrepancies in perceived goals, evaluation has no ground to stand on'.⁴⁷ While this will indeed prevent the carrying out of any quantifiable evaluation research, it will not prevent us from drawing more generalised conclusions.

47. Weiss, 1972, pp.10-11.

Since this is a study of the policy process as a whole, we will want to study the relationship between the various decisions affecting shipbuilding which took place during the period. Is this relationship best seen in terms of a homeostatic model with negative feedback,⁴⁸ a series of incremental decisions⁴⁹ or as fragmented responses to individual crises? Since both major political parties held power during the period, the influence of party ideology can also be assessed.

By studying the whole of the policy process affecting shipbuilding, it should be possible to gain a fuller picture than by studying only, say, the formulation of the major policy statements. Inevitably, this means the relative neglect of aspects of politics which would be highlighted if different focuses were adopted - for example, the importance of interest groups, or the role of House of Commons committees. Covering policy over a period of fourteen years also means that some detail has to be omitted. However, the approach adopted here should provide particularly useful insights into the politics of industrial change in the UK.

48. Cf. Deutsch, 1966.
 49. Lindblom, 1959.

APPENDIX.

COVERAGE OF THE STUDY AND DEFINITIONS OF MEASUREMENT.

As the Labour government discovered in 1976 at the cost of a parliamentary row over the hybridity of the Aircraft and Shipbuilding Industries Bill (see section 7.6), it is very important to be clear about the exact coverage of any item dealing with the shipbuilding industry. This study is concerned with shipbuilding firms which build ships of greater than 100 gross registered tons (grt). This coverage conforms with that of the Shipbuilding Industry Training Board (SITB) and the Shipbuilders and Repairers National Association (SRNA). However, the main concern is with yards capable of building ships of over 5,000 grt, i.e. the level covered by the Geddes Report.⁵⁰ This study is not, therefore, concerned with boatbuilding, nor is it concerned with shiprepairing or marine engineering even though these are often carried on by firms which also build ships. The justification for this is that shipbuilding as an activity is distinct in kind from repairing and engine building, with the demand for new ships being determined in a different way from the demand for shiprepairing services. The construction of oil rigs is also excluded from this study, except where they are built by shipbuilding firms.⁵¹

In defining coverage in terms of gross tons, some mention must be made of the terminology involved - there are a number of ways of measuring the 'tonnage' of a ship (see table 1.A). The term most frequently used to describe shipbuilding output - gross tons - can be seen to be similar to measuring the output of lorries in terms of

50. Cmnd 2937.

51. For a discussion of oil rig construction sites in the UK, see MacKay and Mackay, Chapter 7.

their cubic capacity. It should be clear that to use the total number of ships launched as a measure of output is not a satisfactory way of comparing output either between yards or countries or over time because of the different mix of output in terms of different kinds of ships. For example, during the period considered in this study passenger ship production has virtually ceased, while production of oil tankers has greatly increased. The effect of converting to compensated tons, as used by SRNA in 1968, was to reduce the apparent dominance of Japan's order book from 17m gross tons compared to Britain's of 3m gross tons to 8m compensated tons for Japan and 2m compensated tons for Britain. Unfortunately, most figures for output are given in terms of gross tonnage, and this is the measure most referred to in this study.

Table 1.A Definition of measurements

Gross tonnage is a measure not of weight but of the cubic capacity of enclosed spaces both under and above deck and including holds and deck houses, where one ton is taken to equal 100 cubic feet; this is the normal measure of size of merchant fleet or shipbuilding output.

Deadweight tonnage is the measure of a ship's total carrying capacity in tons weight avoirdupois including cargo, fuel, passengers and crew when fully laden down to her permitted load line; used in references to size of dry cargo ships and tankers; the size of passenger ships is more usually given in gross tons.

Compensated tonnage is an attempt to adjust the gross tonnage to take account of the differing work content involved in constructing different kinds of ships.

Relationship between different measures: For a passenger liner the gross tonnage may be several times the deadweight tonnage. For a cargo ship or tanker the deadweight tonnage will generally be the higher figure, up to approximately twice as high in the case of giant tankers. The effect of compensated tonnage is greatly to increase the relative tonnage of, say, a warship compared to a tanker.

Sources: Cmnd 2937, appendix C, p.168; Cmnd 4756, p.Viii; Times, 31 October, 1968.

CHAPTER 2

GOVERNMENT POLICIES AFFECTING SHIPBUILDING BEFORE 1959

2.1 POLICY BEFORE THE FIRST WORLD WAR

When examining a particular period in detail it is all too easy to assume that the important features of that period were unique. To obtain a sense of perspective before examining government shipbuilding policy in the period 1959 to 1973 it is worth surveying briefly the ways in which government policy in earlier periods affected the industry. During the nineteenth and early twentieth centuries, UK shipbuilding benefited from government subsidies paid to the shipping industry in the form of mail subsidies and subsidies for the construction of fast merchant ships.¹

The value of the postal subsidies declined by the 1870s, but from the late 1880s onwards subsidies again became important in the form of payments for the retention of Admiralty cruisers, in loans, and in the hire of troop transports.² Although these were subsidies to shipowners rather than shipbuilders, British shipbuilding was then so dominant that the effect was to increase demand for ships from British yards. The government assisted shipbuilding in two other ways: the Admiralty played an important part in promoting research in the shipbuilding industry, and warship building grew between 1870 and 1914 'from a minor specialist activity to the cornerstone of prosperity in the shipbuilding industry'.³

1. Jones, 1957, pp.141-3; Cairncross and Parkinson, 1958, p.93.

2. Pollard, 1952-3.

3. Pollard, 1952-3, p.108.

2.2 THE PERIOD BETWEEN THE WARS

Wartime expansion of shipbuilding laid the seeds of future problems: capacity was increased by 1m gross tons to a total of 4m, but from 1921 to 1939 launchings never exceeded 1.7m and were usually far less. Shipbuilding did benefit from Treasury guarantees for loans raised to finance industrial projects under the Trade Facilities Acts, 1921 to 1926, which were designed to maintain employment following the collapse of the postwar boom in the economy. Of a total of £75m guaranteed under the Acts, £21.66m, about 30% of the total, went to shipbuilding.⁴ The guarantees were also available to foreign owners building in British yards, and guarantees granted to them were about 10% of the total for shipbuilding. The construction of ships under the Trades Facilities Acts, and similar measures which continued in Northern Ireland after 1926, provided less than one year's work for British yards.

Between 1926 and 1935 the only involvement by the UK government was concerned with the completion of the Queen Mary. In the early 1930s British shipping and world shipping generally faced the problem of redundant and obsolete capacity, but to be effective any scheme of laying up, scrapping or allocation of tonnage had to be based on international cooperation. British shipowners had previously been hostile to state intervention, but at the end of 1933 they asked for a temporary subsidy to meet foreign competition. In July 1934 the government introduced proposals to provide a one-year grant of £2m to tramp shipping. Payment of the subsidy was to be conditional on the shipping industry adopting a scheme acceptable to the government which would prevent the subsidy being wasted on domestic price cutting. Shipbuilding, which was

4. Jones, 1957, p.144.

very depressed at this time, was to be assisted by a 'scrap and build' programme outlined in a White Paper.⁵ British shipowners were to be helped by loans advanced or guaranteed by the Treasury to enable them to build new tonnage or to modernise existing tonnage on condition that they scrapped three times as much tonnage of the same general character.

The shipowners disliked the form of the proposed shipping subsidy, and were opposed to the 'scrap and build' scheme, which they claimed was meant to help shipbuilders and was not relevant to the future of British shipping. Following representations from the shipping industry, the government modified its proposals for the shipping subsidy, but it was not prepared to abandon the 'scrap and build' proposals.⁶ The scheme was, however, modified so that owners were required to scrap only two tons for every ton of new shipping built, and one ton for every ton modernised. As well as scrapping British ships owners were to be allowed to buy ships for scrapping from foreign owners.

These proposals were embodied in the British Shipping (Assistance) Act 1935. The Treasury was empowered to advance not more than £10m in loans, at an interest rate of 3% or less and repayable within twelve years, to British owners to build and modernise ships. This assistance was to be available only until February 1937. It was estimated that the loans available would be sufficient to cover the cost of building 600,000 grt at existing prices. However, only thirty-seven applications for the construction of fifty ships, totalling in all approximately 186,000 grt, were approved, and total advances to shipowners amounted to

5. Cmd 4647.

6. Cmd 4754.

£3.5m - only a third of the amount available.⁷

In the view of Jones, although the part of the Act dealing with the subsidy to tramp shipping and the part dealing with the scrap and build scheme were intended to be complementary, in practice they were incompatible: 'On the one hand, the object of the subsidy was to secure an improvement in freight rates, while on the other, the success of the 'scrap and build' provisions depended on the extent to which owners were prepared to scrap existing tonnage, which they were less likely to do in a rising market'.⁸ In the language of policy analysis, the basic programme design was faulty. In addition, the Act had come into effect at a time when international trade was improving and shipping was already recovering. Only six of the ninety-seven ships finally nominated for scrapping were the property of the applicant companies. The majority of shipowners had to buy the scrap tonnage they required and pay what amounted to a premium over the real scrap value of their purchases. When scrap tonnage had to be bought from abroad this premium was effectively a subsidy to foreign owners for scrapping ships which they would in any case have been compelled to scrap (though purchases of this kind were later disqualified). It had been the intention that ships scrapped under the scheme would be broken up in the United Kingdom, but because the price offered for scrap was higher abroad this restriction was eventually removed. (See Section 5.5 for an interesting parallel in the 1960s when British government funds again benefited foreign shipowners and foreign yards though on a much grander scale).

During 1938 the decline in shipbuilding activity in the UK became acute, and those urging government action emphasised the contribution of

7. Cmd 5459.

8. Jones, 1957, p.153.

shipping and shipbuilding to national defence. In March 1939 the government made a number of proposals to assist the two industries:

1. A subsidy of £2.75m a year for five years to tramp shipping, excluding coastal shipping.
2. A capital grant of £0.5m a year for five years to owners of tramp and cargo liners who ordered tonnage from British yards in the next few months. This would be made available for the construction of ships most needed in wartime.
3. £10m was to be made available in loans to shipowners in favourable terms for a period of two years. Instead of scrapping there was to be a laying-up programme by which ships would be retained on a 'care and maintenance' basis and would not be brought out for trading except in an emergency.
4. £2m was to be made available for the purchase of British ships as a reserve for use in an emergency.⁹

This statement produced an immediate response: 700,000 grt of orders were placed within six weeks. However, since the proposals were designed for defence purposes, rather than for the long-term future of the industries, it is a matter of speculation how shipping and shipbuilding would have fared if the war had not intervened.

One other scheme in the inter-war period should be mentioned, since, although not itself the result of government action, it involved the formation of a cartel which the government could, if it had wished, have intervened to prevent. Because of the considerable overcapacity in the industry after the First World War, the Shipbuilding Conference, the employers' organisation formed in 1928 to deal with the economic problems

9. HC Deb., 28 March 1939, cols. 1851-60.

of the industry, set up National Shipbuilders' Security Ltd. to buy up redundant and obsolete yards as they came on to the market.¹⁰ The Bank of England supported the venture, and security for an issue of debentures was given by the promise of a levy of 1% on the value of new tonnage to be constructed in the future by shipbuilders supporting National Shipbuilders' Security Ltd. This company was responsible for reducing UK shipbuilding capacity by about a third by 1939, though Parkinson remarks that 'It is impossible to say how far the reduction in capacity effected by this means would have been brought about by natural processes ... the effect of the intervention of the company in the affairs of the industry was of less importance than might at first appear'.¹¹ Some of the yards closed by the company were put on a care and maintenance basis and were reopened during the Second World War. However, they were closed after the end of the war and their equipment transferred to other yards. In retrospect this forced reduction of UK capacity was short-sighted - quite apart from the legacy of bitterness it left in the minds of shipbuilding workers. To a certain extent the concern with overcapacity in the 1930s concealed what was to be the long-term danger: 'It was not so much the check to world output that spelled a warning for the UK industry, as the gradual encroachment of its overseas competitors into what had been a United Kingdom preserve'.¹² This concern about overcapacity spilled over into the postwar period despite the evidence of rising world demand.

2.3 AFTER THE SECOND WORLD WAR

After the end of the war the government concluded that wartime statutory control of licensing for building ships should not be retained for long,

10. PEP, 1957, p.25; Parkinson, 1960, pp.13-14.
 11. Parkinson, 1960, pp.13-14.
 12. Parkinson, 1960, p.12.

but that there was a continuing need for close consultation and cooperation by which the government might 'hope to anticipate the difficulties which threaten the industry'.¹³ Accordingly the government decided to set up a Shipbuilding Advisory Committee with the following terms of reference:

- 1. To advise HM Government on all matters which affect or are likely to affect the efficiency and stability of the Shipbuilding Industry.
- 2. To advise HM Government on any steps required to safeguard the War Potential of the Industry.
- 3. To promote the cooperation of the Shipbuilding employers both with the Shipowners and the representatives of Shipyard Labour.
- 4. To advise from time to time on organisation, practice and cognate matters, with a view to maintaining and improving the efficiency and stability of the industry; and to arrange for such consultation with the industry and for such enquiries into specific matters as may be necessary to this end.

Any matters of industrial relations normally dealt with by voluntary machinery within the industry will be referred to the appropriate bodies for consideration'.¹⁴

Membership of the committee was to consist of a chairman, two representatives from each of the two main government departments then concerned - Admiralty and War Transport - plus representatives from other departments coopted as necessary, and representatives from the shipping industry, the shipbuilding industry and the Shipbuilding Unions. It was decided to have an independent chairman who should have both a thorough

13. Admiralty memorandum, 1946.

14. Document made available to the author by Sir Graham Cunningham.

understanding of industry, though not necessarily of shipbuilding, and familiarity with the machinery of government. The criteria were excellently filled by Sir Graham Cunningham, who served as chairman from 1946 to 1960. During the war he had been Chief Executive and Controller-General of Munitions Production at the Ministry of Supply, and while chairman of the Shipbuilding Advisory Committee he was chairman and Managing Director of Triplex Safety Glass Company Ltd.

The main issues discussed by the Shipbuilding Advisory Committee (SAC) were steel allocation, shipbuilding costs, labour shortages (sic) and shortage of orders. These were problems which affected firms individually, but the chairman saw the role of the SAC as coordinating the representations of individual firms and assessing the implications of their problems.¹⁵ Because of his wartime experience, Sir Graham had a large number of personal contacts in the relevant ministries.

In the late 1940s the issue of shipbuilding costs was considered outside the formal framework of the SAC. At the end of 1946 the First Lord of the Admiralty and the Minister of Transport expressed concern to Sir Graham about the apparently varying costs of new shipbuilding in British yards and asked him if he could carry out some kind of investigation. Sir Graham agreed to do so if he could set up a committee which would be informal and divorced from the idea of a working party and which would produce a report which would not be published, because under the circumstances he did not think that the report should be available to shipowners. After some exchange of letters, in which the Admiralty showed that it was aware of the anomaly of setting up the SAC to deal with all matters affecting the industry and then setting up a committee

15. Interview with Sir Graham Cunningham. 13 November 1973.

outside it, Sir Graham's proposed procedure was agreed to. The committee as finally appointed in June 1947 consisted of a legal chairman, four shipbuilders, two trade unionists and two chartered accountants (one of whom was from a shipbuilding company). The report was not completed until March 1949. Of particular significance among the causes of cost variation identified were:

1. Unofficial embargoes on overtime working were a fairly common occurrence both in individual yards and in districts, and such embargoes caused a degree of interference with work which affected costs of production.

2. Shortage of skilled and unskilled labour. However, by the time the report was prepared these shortages no longer seemed to be a problem or to be a contributory factor to the variation of costs of shipbuilding in Britain.

3. Shortage of materials, especially, though not exclusively, steel.¹⁶

Despite claims to the contrary,¹⁷ while steel shortages may have been important in the late 1940s, they were not an important contribution to the failure of the UK shipbuilding industry to expand. Although steel was formally subject to central allocation until the mid 1950s, Allen points out that 'Throughout the 1950s, however, British steel was relatively cheap by international standards and in that period British shipbuilders had few grounds for complaint'.¹⁸ In the early 1960s the restrictive practices of the Iron and Steel Board in collusion with the government did prevent the extensive use of foreign steel when it was available at a low price. In 1963 the steelmakers made price concessions to the shipbuilders, and in July 1964 the Restrictive Practices Court

16. Letter from Sir Graham Cunningham to the First Lord of the Admiralty, 14 March 1949.

17. E.g. by Hardy and Tyrell, 1964, p.167.

18. Allen, 1970, p.136.

decided that the producers' agreements for common steel prices should be abandoned. However, the undoubted disadvantages in steel prices in the early 1960s cannot be blamed for the drastic comparative decline of UK shipbuilding in the 1950s (see table 1.9). This analysis is confirmed by the view of a minister who dealt with the industry from 1951-7 that while the main issue during his period of office was steel allocation this was not an adequate reason for failure to reconstruct yards.¹⁹

The Admiralty, which was responsible for shipbuilding after the war until 1959, did look at the question of the reconstruction of shipyards, but realised that the Treasury would not have been prepared to help - the industry was not considered to be in trouble and was even making profits.²⁰ This attitude is understandable if you look only at the column headed 'UK 000grt' in table 1.9, since output in the late 1950s was steady. However, the really significant column was the 'Per cent' column, which showed the UK share of world output and revealed the comparative decline of UK shipbuilding; this diagnosis is developed further at the beginning of the next chapter. If we think in terms of the two aspects of a problem outlined in section 1.5 - 'the state of affairs the government wishes to avert' and 'what brought about (or would bring about) this state of affairs' - we can see that the British government reacted only when the undesired state of affairs actually occurred and failed to react to signals that this state of affairs would arise in time to deal with the causes leading to the undesired situation. In other words, the government adopted a problem-solving rather than a problem-averting approach. Given the competing demands on government time and resources governments are likely to concentrate on issues with

19. Interview with Simon Wingfield Digby. 11 December 1973.
20. Interview with Simon Wingfield Digby. 11 December 1973.

current political penalties for not doing something now, to the detriment of issues where there are future costs for not doing something now.

2.4 CONCLUSION

Although there were no measures of government assistance specifically directed at shipbuilding in the late 1940s and the 1950s, it is clear that in previous periods shipbuilding did benefit from government policies. The type of government assistance outlined in this chapter was, however, different from that considered in later chapters in that assistance measures were separated by many years and in that the government was not involved in the affairs of individual shipyards. Another notable feature was that many of the policies affecting shipbuilding, such as the mail subsidies, were directed at the shipping industry. Even where shipbuilding was more obviously at the forefront of consideration, policies such as the 1930s scrap-and-build scheme operated on both UK shipowners and UK shipbuilders. This feature was to continue in some government policies in the 1960s. However, the symbiotic relationship between UK shipping and UK shipbuilding was to dissolve in the 1960s, with a growing proportion of orders from UK shipowners going abroad.

During the two world wars governments obviously became very directly involved in running the shipbuilding industry. The then strategic significance of shipbuilding was reflected in the setting up of the Shipbuilding Advisory Committee in 1946, through which the government hoped 'to anticipate the difficulties which threaten the industry'. How the government reacted to such a warning about difficulties threatening the industry is discussed at the beginning of the next chapter.

CHAPTER 3

INITIAL RESPONSES TO DECLINE

3.1 RECOGNISING A PROBLEM

It is all too easy to point out in retrospect that the government ought to have recognised a problem earlier and taken measures to deal with it. If, however, we can point to a simple indicator of declining competitiveness which could have identified possible future employment problems before they became acute we will have a useful basis for assessing the government's response. As was suggested in section 1.4.1, a declining national share of a rising world market for an internationally traded product, even when this has not yet resulted in a fall in the absolute level of national output, is a good indicator for identifying future problems. Absolute level of output may be maintained for a while if world demand rises faster than new capacity, but if demand falters (or new capacity increases faster) then uncompetitive yards will be the first to suffer, and when demand picks up again they will be the last to benefit since they will not be given orders until the order books of more competitive yards are full. Even given a static level of output total employment will be likely to fall if the improvements in technology and productivity necessary to regain competitiveness are introduced; it is, of course, precisely in such circumstances that cooperation from the labour force in increasing productivity is least likely to be forthcoming. In order to avoid this vicious circle, action has to be taken as early as possible to improve competitiveness. It should be noted that even where the national average share and competitiveness are declining there are likely to be individual firms which are competing well; however, this

also carries the implication that future decline in employment will be even more highly location-specific than the national distribution of the industry.

The usefulness of declining national share as an indicator applies not only to shipbuilding but to most manufacturing industries producing an internationally competing product. In its report on the British car industry the CPRS suggested that 'The two best indicators of any industry's performance compared with its competitors are the share which it obtains of the market and its financial position. A poor or declining performance in either or both of these areas is a good indicator of fundamental weakness and the need for remedial action'.¹ The report pointed out that the British car industry's share of total West European and Japanese production had steadily declined from 26.9% in 1963 to 17.4% in 1967, and 10.7% in 1973; the number of cars produced had, however, remained fairly constant. When demand slumped after the 1973-4 oil price rise the British car industry was particularly severely hit and the UK government had to rescue both British Leyland and Chrysler in 1974-5.

Returning to the shipbuilding industry, and in order to remove as much as possible of the benefit of hindsight, it is worth looking at the figures on output and employment which were available to government and the industry at the end of the 1950s. These are set out in tables 3.1 and 3.2.

1. CPRS, 1975, p.59.

Table 3.1 UK and World completions of merchant ships, 1947-59.

Year	Completions (000 grt)		UK share of world tonnage (%)
	UK	World	
1947	944	1,880	50.2
1948	1,213	2,482	48.9
1949	1,353	3,114	43.4
1950	1,389	3,254	42.7
1951	1,340	3,557	37.7
1952	1,264	4,211	30.0
1953	1,250	4,938	25.3
1954	1,496	5,450	27.4
1955	1,322	4,967	26.6
1956	1,457	6,291	23.2
1957	1,421	8,117	17.5
1958	1,464	9,059	16.2
1959	1,383	8,697	15.9

Source: Cmnd 2937, appendix K, p.185.

Table 3.2 Employment in shipbuilding, 1956-9.

Year	Operatives (new construction)		Other than operatives (shipbuilding & shiprepairing)
	Merchant	Naval	
1956	78,300	13,400	21,100
1957	80,700	13,900	21,500
1958	77,600	14,600	21,300
1959	80,100	13,600	21,100

Source: Cmnd 2937, appendix E, p.172.

If one looked only at the figures for UK completions in table 3.1 and at table 3.2 on employment one would be impressed by the overall stability. If, however, one looks at the column for UK share of world output a different picture emerges; even if one assumes that for several years after the war the picture was distorted by increasing output from replacements to war-damaged yards abroad, there is a steady and fast

decline in the UK share from the mid-1950s. While world demand continued to rise the UK felt no adverse effects. However, 'Boom conditions up to 1957 postponed the penalties of conservatism, but in the years that followed the weaknesses of British shipbuilding were fully revealed'.² World output reached a peak in 1958 (with order books peaking a year earlier) which was not to be exceeded until 1964, and British yards suffered disproportionately during the period of relative stagnation.

3.2 THE RESIGNATION OF SIR GRAHAM CUNNINGHAM

These symptoms of Britain's declining competitiveness did not go unnoticed by those involved in the industry. Two meetings were held between unions and employers in early 1959 to discuss the continuing decline in Britain's relative position and the actual decline in the size of the order book, but nothing developed from them.³

Sir Graham Cunningham, chairman of the Shipbuilding Advisory Committee, considered that there were obvious signs in early 1959 which threatened the stability of the industry.⁴ On a number of occasions in 1959 and 1960 he tried without success to persuade the committee to take special action to inquire into what should be done to help shipbuilding over the next few years. At his final attempt on 4 February 1960 Sir Graham once again raised the matter of a special inquiry and suggested setting up a subcommittee to inquire into the state of the industry and to make recommendations. The union representatives supported this proposal and the shipowning representatives offered full cooperation if such a subcommittee was set up. However, all the shipbuilding employer

2. Allen, 1970, p.134.

3. AEU Monthly Journal, March 1959 and December 1959.

4. Letter of resignation from Sir Graham Cunningham to Ernest Marples, 16 March 1960.

representatives wanted the question to be postponed further. Sir Graham decided to resign, and following a meeting with Ernest Marples, the Minister of Transport, he submitted his letter of resignation. Referring in it to the employers' reasons for asking for deferment of the question of an inquiry he said, 'I consider these excuses so frustrating that to continue serving the industry as chairman would be fruitless'.

The Ministry of Transport, which had become responsible for shipbuilding only in November 1959 when it was transferred from the Admiralty, was clearly embarrassed by the resignation and would have preferred that the letter of resignation had not been made public. Sir Graham, however, was determined that the reasons for his resignation should be made known publicly.⁵ In his reply Mr. Marples referred to Sir Graham's previously expressed intention to retire from the chairmanship of the Shipbuilding Advisory Committee.⁶ He also indicated his intention of appointing the Permanent Secretary of his Ministry, Sir James Dunnett, to take over the chairmanship and that 'with the concurrence of the representatives of both sides of the industry' he was arranging that a special subcommittee should be set up to consider the future of the industry.

Mr. Marples was obviously concerned in his letter to minimise possible embarrassment to the government, and certain points about his reply should be made. First, although Sir Graham had indeed indicated his desire to retire, he would not have resigned at this time and in this way if it had not been for the employers' refusal to agree to an inquiry.⁷ Secondly, until Sir Graham's resignation on this issue his successor had not been

- 5. Interview with Sir Graham Cunningham. 13 November 1973. Times, 24 March 1960
- 6. Letter from Ernest Marples to Sir Graham Cunningham, 16 March 1960.
- 7. Interview with Sir Graham Cunningham. 13 November 1973.

chosen. Because there was not the time to go through the usual process of finding a suitable candidate the Permanent Secretary of the Ministry was a handy choice.⁸ It was because of this, rather than a deliberate decision to make a change, that a civil servant was appointed, even though the intention at the time the Advisory Committee had been set up was that the chairman should be independent, not only of the two sides of the industry, but also of the government departments concerned (see section 2.3). Finally, although the 'concurrence' of both sides of the industry was obtained the decision to set up a subcommittee was a unilateral one on the part of the Minister and arose directly out of Sir Graham's resignation. Naturally, the resignation provoked a number of questions in the House of Commons. In dealing with these Mr. Marples again tried to play down the issue on which Sir Graham had resigned by saying that he had for some time wished to retire from the chairmanship.

Sir James Dunnett, as well as becoming chairman of the main committee, was appointed chairman of the special subcommittee. This choice was inevitable since he was the only 'independent' member of the committee. The subcommittee held its first meeting on 5 May 1960, with the terms of reference 'to review the prospects of, and the problems facing, the shipbuilding and shiprepairing industry and to make recommendations'.⁹

3.3 THE DSIR REPORT

3.3.1 The leak of the draft DSIR Report

1960 was a bad year for ministers responsible for the shipbuilding industry. While the SAC subcommittee was sitting, political attention was

8. Interview with Sir James Dunnett. 19 November 1973.

9. HC Deb., 30 March 1960, cols. 1315-18.

focused on the activities of another government department as they affected shipbuilding - the Department of Scientific and Industrial Research (DSIR). While the Ministry of Transport was the sponsoring department for the industry, the DSIR was responsible for research and development.

The day before the publication of Sir Graham Cunningham's letter of resignation, Lord Hailsham, the Minister for Science, made a speech to the Royal Institution of Naval Architects in which he said that shipbuilding production in the United Kingdom might fall heavily in the next five years. During his speech he asked 'Are British yards doing enough to apply new techniques of shipbuilding compared with some of their rivals? Are we satisfied that our yards are making best use of their space - and are there not perhaps too many of them? Perhaps the future lies with fewer and larger units. Are we spending enough on research?'¹⁰ Lord Hailsham said that he knew of no research on production techniques and methods being undertaken in organisations representing the industry. He also asked whether satisfactory machinery had been developed for smoothing out conflicts over the allocation of jobs. These comments provoked some concern among MPs of both parties. In reply to a question in the House of Commons, Mr. Butler said on behalf of the Prime Minister that Lord Hailsham had made no statement of policy in his speech, but had drawn attention to a number of questions of concern to the shipbuilding and shiprepairing industries.¹¹

During this time the economics staff at the DSIR, for which Lord Hailsham was responsible, was working on a report on the research and development requirements of the shipbuilding and marine engineering

10. Times, 23 March 1960.

11. HC Deb., 17 May 1960, col. 1095.

industries. A confidential draft of the report had been in the hands of the industry for some weeks before The Times published an outline of its contents at the beginning of October 1960.¹² According to The Times, the report was rejected by many shipbuilders as misleading and inaccurate, though it specifically exonerated certain firms.

According to The Times summary, the report took the industry to task on a number of points, but particularly on productivity. The report calculated that productivity in British yards had perhaps improved by 1% since 1951, compared with 3½% in manufacturing industry and with great improvements in foreign shipyards. This failure to improve productivity was attributed to bad labour relations, demarcation problems, technical backwardness, quality of management, too many small firms, and lack of standardisation in ships and parts.

The report stated that production control in the industry was primitive, work-study non-existent, and personnel management old-fashioned, and there was too little contact with other industries whose techniques might benefit the yards. On labour relations there would be little hope of an end to demarcation troubles until workers were given security of employment and the unions some kind of financial inducement to cooperate. Not enough had been spent on modernisation. Subsidies to foreign competitors and taxation in Britain were not serious elements in the competitive position: Britain's competitors paid roughly the same level of taxation. The report also recommended changes in the organisation of the marine engine industry.

Not surprisingly, this leak of the contents of the draft report by The Times provoked considerable adverse reaction. The Shipbuilding Conference declined to make a statement, since the report was still being

12. Times, 8 October 1960.

discussed with the Ministry of Transport and the authors. The DSIR also declined to comment, since it still regarded the report as highly confidential! Shipbuilders had taken strong exception to some of the findings in the report and there had been hopes that the report would be withdrawn altogether or at least toned down.¹³

3.3.2 Official version of the DSIR Report

Publication of the report. The leak of the draft report by The Times removed any doubts that there might have been about the publication of an official version of the report. The shipbuilders were anxious to see the publication of a version which went at least some way to countering the criticisms published in The Times. A series of meetings was held between the DSIR and the Shipbuilding Conference and at the seventh meeting the decision to publish was taken.¹⁴ The report was published on 15 December 1960 under the title Research and Development Requirements of the Shipbuilding and Marine Engineering Industries.¹⁵

According to The Times, which had the opportunity of comparing in detail the draft and published versions, the published version was a severely curtailed version of the draft: 'The published version has been purged not only of some admitted inaccuracies and questionable generalisations, but also of a great deal of serious and valid criticism of the industry contained in the original, especially in the fields of management, productivity and labour relations'.¹⁶

The report as published was based on the assumption that existing world capacity was far in excess of foreseeable demand for some years

- 13. Times, 10 October 1960.
- 14. HC Deb., 18 December 1960, col. 1421.
- 15. DSIR Report, 1960.
- 16. Times, 16 December 1960.

ahead; world production during the next five years could fall to as low as a quarter of the 1960 level before it began to recover. (This forecast turned out to be far too pessimistic; see table 1.9). As a result of this, the report suggested, British shipbuilding output might fall in the next few years. The UK share of world launchings had declined during the 1950s and by 1959 the UK had become a net importer of ships.

In dealing with costs and productivity, the report discussed in some detail prices, steel costs, components, labour, productivity and construction times, and compared British performance with foreign yards. There was no evidence to suggest that over the British shipbuilding industry as a whole labour productivity had increased significantly since 1946, in spite of increased investment in production plant and machinery. The report concluded that there was no indication that the UK shipbuilding industry had on balance any marked technical or economic advantage over its major foreign competitors apart from its large home market (though this advantage declined as an increasing proportion of British orders went abroad).

Most of the report's conclusions, and all of its recommendations, dealt with research and development. It concluded that the total effort then devoted to research and development in shipbuilding and marine propulsion was insufficient in relation to the serious problems facing the industry. In particular, almost no organised research had been applied to the industry's production and management problems with the object of increasing the productivity of labour and capital and reducing costs.

The recommendations made in the report were:

1. Further steps should be taken by the DSIR and the Shipbuilding

Industry in collaboration with the Ministry of Transport to examine the research and development needs of the industry as a whole and to review the arrangements for carrying out research.

2. In view of the current examination by the industry of the organisations and programmes of the British Shipbuilding Research Association and PAMETRADA [a marine turbine research organisation], arrangements should be made for a concurrent economic and technical study of research and development needs in the field of marine engineering to provide background for the Research Council's consideration of the reports they will receive from the two Associations.

3. The study recommended in 2. above should be carried out by DSIR with the assistance of the Ministry of Transport and in close association with the two Research Associations and the Industry.

4. In view of the great importance of research into production techniques and methods aimed at increasing productivity and reducing costs, DSIR and the Ministry of Transport should consider with the Industry what assistance could most appropriately be given to the industry's own efforts to promote research.

5. As an immediate stimulus to development DSIR should give priority consideration to proposals for development under contract in the shipbuilding and marine engineering industries.

6. The Ministry of Transport and DSIR should consider with the Shipping Industry what further steps should be taken to study the industry's future technical requirements'.

Reaction to the report. The Shipbuilding Conference, in a statement issued at the same time as the publication of the Report, said that its release was with the knowledge and concurrence of the industries concerned

and that 'it is hoped that publication will now put an end to erroneous and damaging speculation about its contents which have appeared in the Press in recent weeks'.¹⁷ However, the statement said that the industry was 'by no means in agreement with some of the comments and views expressed, especially as regards achievements in the field of marine engineering'. In particular, the statement rejected criticisms of PAMETRADA. The Shipbuilding Conference expressed willingness to cooperate as suggested with both DSIR and the Ministry of Transport to promote the interests of shipbuilding and marine engineering. It welcomed the proposal that the DSIR should give priority consideration to developments under contract in shipbuilding and marine engineering.

3.3.4 Developments following publication of the DSIR Report.

Formation of a new research organisation (recommendations 1, 4 and 6).

In November 1961 plans were announced for the formation of a new British Ship Research Association (BSRA) from the existing functions of the British Shipbuilding Research Association and PAMETRADA. The new BSRA was to take over PAMETRADA's work on turbines and gearing and BSRA's work on naval architecture, marine engineering, nuclear power, and production research. The formation of the new Association took place in May 1962. The DSIR undertook to provide 10 shillings (50p) for every £1 raised for BSRA by the industry provided that the industry's contribution was at least £600,000 per annum, and subject to a maximum DSIR grant of £500,000. Between 1958/9 and 1964/5 expenditure at BSRA rose from £280,000 to £1,180,000.¹⁸ In addition expenditure at the National Physical Laboratory Ship Division, which was important for

17. Shipbuilding Conference statement, 15 December 1960.

18. Cmnd 2937, p. 127.

hydrodynamic work, rose during the same period from £230,000 to £700,000.

R & D needs in marine engineering (recommendations 2 and 3). An economic and technical study of research and development needs in marine engineering was well advanced by the end of 1961.¹⁹ The study was carried out by the DSIR and the Ministry of Transport with the cooperation of marine engine building firms and the research associations.

Production research (recommendation 4). Before the DSIR Report was published, the industry itself had already taken steps to inquire into means of improving productivity and developing production research. The eventual outcome of this inquiry was the Patton Report, issued in March 1962.²⁰ The 86-page long report reviewed shipbuilding facilities and labour and welfare facilities in both UK and continental shipyards.

Taken together, the two chapters of detailed recommendations on improving productivity are themselves longer than any of the government-sponsored reports on the industry in the early 1960s. The report was intended to provide guidance for individual firms and no organisation was set up to supervise the implementation of its recommendations, though the Production Research Section of BSRA was available for inquiries about the detailed application of recommendations. In the opinion of the Geddes Report of 1966 'the influence of the Patton report on British shipbuilding technology has been strong'.²¹ The Patton Committee sent a copy of the report to the unions in the hope that they would take note of the lack of flexibility and interchangeability in British yards. However, just before this, talks between employers and unions on improving productivity had broken down (see section 3.4.2).

19. HC Deb., 14 December 1961, written answers, col.92.
20. Patton Report, 1962.
21. Cmnd 2937, p.125.

Development contracts (recommendation 5). The fifth recommendation of the DSIR Report was that as an 'immediate' stimulus to development DSIR should give 'priority consideration' to proposals for development under contract in the shipbuilding and marine engineering industries. By the end of 1961 consideration of this was postponed until the formation of the new BSRA and the results of the surveys being carried out by DSIR and the Ministry of Transport, and by the industry itself.²²

3.3.5 The impact of the DSIR Report

For a report which had such an inauspicious start when it was leaked, the DSIR Report represents one of the most constructive developments of the early 1960s. Certainly when compared with the SAC Report considered in section 3.4 there was a fairly high success rate in carrying out the recommendations in the report. How can this be explained? The first, and most significant, reason is that the recommendations were in principle within the scope of the employers and the government acting together. The recommendations related to increased research, and this was the unilateral prerogative of the employers; it is only when attempts are made to carry improved technology into practice that the danger of union opposition arises. To use the implementation jargon of Pressman and Wildarsky, recommendations about research involve fewer 'clearances' than recommendations about introducing new processes into a yard.²³ Secondly, the report was produced within a government department, which implied a high probability that the government would be prepared to take the recommended action. Thirdly, the government provided financial inducements to non-governmental actors (i.e. the shipbuilders) to

22. H.C. Deb., 14 December 1961, written answers col.92.

23. Pressman and Wildarsky, 1973. See also section 1.5.

participate; the form of inducement selected - matching grants subject to both a threshold and a ceiling - seemed the most likely way to ensure an adequate flow of funds while containing the government commitment. The significance of these explanations can best be illustrated by considering their absence in the (non-) implementation of the SAC Report.

3.4 THE SAC REPORT

3.4.1 Publication of the report.

Four months after the publication of the official version of the DSIR Report came the publication of the report of the special subcommittee of the Shipbuilding Advisory Committee (SAC) which had been set up following Sir Graham Cunningham's resignation.²⁴ The subcommittee on prospects had never been intended to be an investigatory committee. In reply to a question in the House of Commons Mr. Marples said, 'There is absolutely no need for the Sub-Committee to travel, because it consists of people belonging to the Shipbuilding Conference, the Shipbuilding Employers' Federation and the Confederation of Shipbuilding and Engineering Unions. They are absolutely fully aware of the conditions in the shipyards'.²⁵

That the Ministry was not relying on the subcommittee to supply it with all the advice it wanted is shown by the appointment in January 1961 (while the subcommittee was still sitting) of Mr. Burney, an Accountant, to help the Ministry in its investigation of the current problems of the shipbuilding industry, particularly finance and credit.²⁶ The Ministry had been discussing credit finance for orders with the Shipbuilding Conference at the Conference's request, and Mr. Burney visited shipbuilders in connection with this.

24. SAC Report, 1961.

25. HC Deb., 25 May 1960, col. 426.

26. Times, 7 January 1961.

The SAC subcommittee effectively consisted of the whole committee minus the shipping representatives. In any case, the two representatives of the General Council of British Shipping attended one of the subcommittee meetings to give their views on the future requirements for merchant ships and the competitive position of the UK shipbuilding industry. The main committee effectively ceased to function while the subcommittee was meeting, and its approval of the subcommittee's report was a formality.²⁷

The report of the subcommittee was published over a year after the initial announcement of the setting up of the committee. During the ten months from May 1960 to March 1961 the subcommittee held ten meetings in order to produce a report of fourteen pages. Given the composition of the committee, its terms of reference, and the history of relations between the two sides of the industry, it was inevitable that some of the time would be taken up in arguments between employer and union representatives. This also accounts for the 'lowest-common-denominator' nature of the report, with recommendations of the 'should bear in mind' variety - a phrase which was used in the recommendation on amalgamations and rationalisation.

An attempt was made by the chairman to persuade the shipbuilders to consider reconstruction, but they were not prepared to do so. Amalgamations posed a threat to the autonomy of individual shipbuilders. Similarly, the trade unions would have been unwilling to agree to more substantial arrangements for avoiding and settling disputes whether with management or with other unions if these were seen as removing the right to unilateral action. The trade unions also suspected, with justification,

27. Interview with Sir James Dunnnett. 19 November 1973.

that rationalisation and more vigorous introduction of new techniques would mean loss of jobs for many of their members, probably concentrated in certain yards and trades. Accordingly, it is not surprising that one of the few points on which all participants could agree was the need for government assistance - as long as this was given in a form which did not involve government intervention in individual yards.

The recommendations of the report were:

- '(a) the government should give the industry's need for credits the most sympathetic and urgent consideration;
- (b) managements and trade union leaders should make the most strenuous efforts to improve their labour relations;
- (c) trade union leaders should continue to take the necessary steps to advise their members of the serious prospects facing the industry and the need for the maximum possible cooperation between management and workpeople to achieve the most efficient methods of production;
- (d) employers and trade unions should together review their arrangements for avoiding and settling disputes;
- (e) joint yard consultative committees should be set up for free consultation about ways and means of improving efficiency as well as welfare matters;
- (f) employers and trade unions should constitute themselves as a national joint consultative committee to deal with matters of national interest relating to ways and means of improving efficiency. This committee should meet as and when required and should be responsible for keeping alive at all levels the spirit of cooperation;
- (g) managements should bear in mind the possible advantages of

amalgamations and should, wherever practicable, cooperate to share effort and the rise of expensive equipment;

(h) the government should consider in the course of their examination of the Survey Report of the General Council of British Shipping the possibilities of subsidising the scrapping of ships or a scrap and build scheme;

(i) the government should review its planned requirements for Government-owned ships with a view to placing as many orders as possible in the two or three years'.

3.4.2 Developments following publication of the SAC Report

Responsibility for implementation.

The Shipbuilding Advisory Committee took no responsibility for following up the report of its subcommittee. There was no meeting of the SAC between the publication of the Report and 13 February 1962, and a meeting was only held then after representations from the unions.²⁸ Of course, the chairman of both the main SAC committee and the subcommittee was also the Permanent Secretary of the Ministry to which the recommendations were addressed. In theory, there could be difficulties about the same individual advising the government as chairman of an official advisory committee and also being responsible for advising the minister on the value of the committee's decisions. In practice, according to Sir James Dunnett, these difficulties did not arise for him.²⁹ Comparison of the report's recommendations with the government's decisions would suggest that in his capacity as a civil servant he advised the Minister to reject the advice he had given him in the report to which he put his signature.

28. CSEU, Quarterly Report of the General Council, 11 January 1962, p. 281.

29. Interview with Sir James Dunnett. 19 November 1973.

This provides a strong clue about how the government saw the role of the committee. It would have preferred not to have been precipitated into setting up the committee by the resignation of Sir Graham Cunningham, but once it had been set up the chairman did see the need for the industry to adapt. However, he evidently saw his role as to attempt to secure agreement among the industry representatives on the action they needed to take rather than impose a preconceived government view. For the reasons outlined in section 3.4.1, one of the few things all industry representatives could agree on was the need for the government to consider assisting the industry. The chairman could have attempted to impose a veto on these recommendations about government action, but it might have been politically embarrassing for a civil servant to be seen to be attempting to prevent an advisory committee from making recommendations to his minister. Bearing in mind the bland form in which the recommendations were couched, the chairman's most sensible course of action was to allow the committee to make the recommendations even if in his departmental role he found them unacceptable.

Labour relations. The majority of the recommendations in the report were, of course, for the industry itself to carry out. In March 1961, before the report was published, employers and unions had already held a couple of apparently amicable meetings about improving efficiency and the industry's competitive position. However, talks broke down in early 1962. Although talks restarted under the guidance of the Minister of Labour, employers and unions were unable to agree about flexibility of labour. According to the Geddes Report, one of the reasons for the failure to reach any final conclusion on a package deal involving redeployment of labour, security of employment and procedures for settling disputes was the division of responsibility on the union side.³⁰ The

30. Cmnd. 2937, p.100.

CSEU could act on behalf of its constituent unions in national negotiations on matters of pay and conditions which were common to the industry as a whole; individual unions regarded questions affecting designation, differentials and demarcations as their prerogative.

Reconstruction. The recommendation on reconstruction, if indeed such a vaguely worded proposal could be called a recommendation, was directed to individual firms and no organisation was responsible for ensuring its implementation. As figure 1.6 shows, little by way of amalgamation took place in the early 1960s, and the bulk of the 'reconstruction' which occurred took the form of the closure of shipyards. Although the recommendation was aimed at the industry, the government also made its views known. The recently appointed Parliamentary Secretary to the Ministry of Transport with special responsibility for shipbuilding and shipping, Vice-Admiral J. Hughes-Hallett, said during a visit to Scotland in June 1961 that the Ministry of Transport had no policy for the rationalisation of the shipbuilding industry. However, by November 1961 he had changed his emphasis: some degree of rationalisation, whether by mergers, closures or shared services, seemed inevitable. The alternative would be to rely on the survival of the fittest and that would be a very painful process (see also section 3.5.1).

Scrap-and-build Scheme. Nothing came of the report's proposal for a scrap-and-build scheme because, as the subcommittee itself had expected, it was not supported by British shipowners. The government discussed the possibility of scrapping or scrap-and-build schemes with the General Council of British Shipping, but the General Council did not support any such schemes. The government did not, however, finally reject the proposal until May 1963. The shipowners' rejection of a scrap-and-build scheme illustrates not so much the general phenomenon in British politics of the power of interest groups to veto proposed changes which conflict

with their desires, as the built-in flaw of such schemes that shipowners are least likely to want to order new ships at the time when they are most likely to want to accelerate scrapping, and vice versa. This has been illustrated by the failure of the scrap-and-build scheme in the 1930s (see section 2.2).

Government orders. The recommendation on government orders was also effectively shelved. According to Mr. Marples, 'The attention of all Departments which order ships has been drawn to the recommendation about reviewing their requirements, but it is rarely practicable to accelerate orders. Most government orders are for the Royal Navy and the value of these has been greater this year than in 1960.'³¹ There are in fact considerable difficulties in placing enough government orders to have a significant short-term impact: although 90% of naval shipbuilding orders went to commercial yards, this employed only 8% of the people in the shipbuilding industry.³² However, when employment in the industry deteriorated further in 1963, two additional ships were ordered. The general principle for the allocation of naval orders was that contracts ^{and} for building/repairing were placed with the shipyards best able to give timely and economical completion; the employment position in the yard was among the factors considered.³³

Credit facilities and the Peat, Marwick, Mitchell Report. The provision concerning credit facilities proved to be the most controversial in the report. Mr. Marples, replying to a Parliamentary Question after he had received the SAC Report, but before it was published, said that he did not think that the question of credit terms was always a reason why orders

31. HC Deb., 14 December 1961, written answers col.94.
32. HC Deb., 1 March 1961, cols. 1580-1.
33. HC Deb., 2 March 1960, col. 1190.

were not placed in the UK, because UK shipowners had in the recent past placed orders abroad where there was no question of credit terms.³⁴

Mr. Marples' view was that some British orders were going to continental yards because they had been quoting lower prices and early delivery dates.³⁵

Improvements took place in export credit in October 1960 and April 1961, but these did not meet the SAC Report's assertion that credit was as important for orders from UK shipowners as from foreign owners.

Mr. Marples returned to the question of credit facilities during a supply debate on shipping and shipbuilding in July 1961.³⁶ He had asked several shipowners to give him details of tenders they had received from both foreign and British shipbuilders and for the reasons why they chose to build abroad. He quoted four cases, though obviously without naming the firms involved. The main factors leading to the placing of orders abroad were price and delivery dates, with the balance of the factors varying in each case. After these and other instances, Mr. Marples thought that there should be an examination of practically all orders placed abroad during the previous two or three years to find out why they went abroad. The government had decided to hold an independent inquiry, and had asked Peat, Marwick, Mitchell and Company, chartered accountants, to analyse and summarise the reasons and report to the government.

The company's report, which reached Mr. Marples in October 1961, covered orders placed abroad by UK shipowners for UK registration between the beginning of 1959 and the end of July 1961.³⁷ The reasons for placing the orders abroad are summarised in table 3.3. On credit facilities

34. HC Deb., 15 March 1961, col.1358.

35. HC Deb., 22 March 1961, col.368.

36. HC Deb., 13 July 1961, cols. 615-21.

37. Peat, Marwick, Mitchell Report, 1961.

the report concluded that 'The availability of credit facilities to spread payment for a ship over a number of years does not appear in most cases to have been of primary importance, and in fact such facilities were neither required nor asked for by several owners'.

Table 3.3 Reasons for placing orders abroad

Reason	Number of Ships
Price	15
Price and delivery date	10
Price and credit facilities	6
Guaranteed delivery date	2
UK builders unwilling to install a foreign-built engine	<u>1</u>
Total	34

Source: Peat, Marwick, Mitchell Report, 1961.

The findings of the Report certainly came as no surprise to anyone. Indeed when the inquiry was set up The Times talked of 'another rather futile inquiry, this time into why these orders are placed abroad (the reasons, better price and delivery are known; but a formal listing will perhaps help to drive the lesson home)'.³⁸ The government regarded the report as 'confirming' that price had been a major factor in influencing British owners to place orders abroad.³⁹ Though the report was prepared by a firm of accountants rather than a committee of inquiry, it fits clearly into the category described by Rhodes as 'Committees set up where government is fairly clear what course to adopt but needs independent backing before doing so'.⁴⁰

38. Times, 14 July 1961.

39. HC Deb., 22 November 1961, col.1348.

40. Rhodes, 1975, p.192. See also section 8.3.

Indeed, the whole point of holding the inquiry only three months after the publication of the SAC Report requires examination. In the first place, the Ministry of Transport did not regard the SAC subcommittee as a useful method of collecting the information necessary to make a decision. The composition of the subcommittee was such that it was naturally concerned with the interests of both sides of the shipbuilding industry.

Secondly, once the SAC Report had been published the government had to try to formulate an adequate response to relevant recommendations to prevent any of them being used as political weapons against it. With the recommendations about a scrap-and-build scheme and the placing of additional government orders, this could be done by pointing out that the first did not have the support of the shipowners and the second would have no significant effect. The question of credit facilities, particularly to British shipowners, was more difficult. The government was clearly convinced from discussions with British shipowners that credit facilities were not an important factor in the placing of orders abroad. However, the government thought that rejection of a recommendation merely on the basis of its own investigation would not carry as much weight as the conclusions of an inquiry specially set up by the government itself. In other words, the government calculated that the best way to gain support for their rejection of a part of a report was to have another report published which showed that the assumptions on which the initial recommendation had been based were incorrect.

In spite of this the question of credit facilities continued to be a matter of controversy up to the introduction of the Shipbuilding Credit Scheme in 1963. The reason for this is that, although the Peat, Marwick, Mitchell Report had shown that British shipowners were not much influenced

by credit facilities, British credit facilities at the time were not so good as those offered in some other countries. This was bound to cause pressure for better credit facilities in Britain.

3.4.3 The impact of the SAC Report

In terms of the non-implementation of its recommendations the SAC Report can be regarded as an almost complete failure. The first reason for this which can be identified is that some of the recommendations were badly designed. This was particularly true of the proposed scrap-and-build scheme when the experience of the 1930s ought to have suggested that this was unlikely to work (see section 2.2), and of the credit proposal where the assumptions about orders from British shipowners were shown to be false. Secondly, the Shipbuilding Advisory Committee itself had no authority to supervise the carrying out of the recommendations. It even recognised in advance that some of its recommendations, such as the scrap-and-build scheme, had very little chance of being accepted by those with whom they had to be cleared. Even where all the participants were within the shipbuilding industry, as with the recommendations on labour relations, the chances of success were slim because of conflicting objectives. The fragmented nature of trade union organisation also meant that there were a large number of groups with effective veto power over reaching an agreement. However, the successful implementation of the labour relations recommendations would have required more than the formal acceptance of an agreement. It would have required changes in the patterns of behaviour of those in the industry of a kind which is not adequately described by terminology such as 'decision points' and 'clearances' as used by Pressman and Wildavsky.⁴¹ This points to a need to generalise their approach to implementation, and this will be taken up in the final chapter.

41. Pressman and Wildavsky, 1973. See also section 1.5.

3.5 DEVELOPMENTS UP TO THE SHIPBUILDING CREDIT SCHEME

3.5.1 The government's attitude to shipbuilding.

The government's greater concern about shipbuilding had been reflected in the appointment in April 1961 of Vice-Admiral J. Hughes-Hallett as an additional Parliamentary Secretary to the Ministry of Transport with special responsibility for shipping and shipbuilding. In his dealings with the industry he largely took over the role of the Shipbuilding Advisory Committee. In addition, Elizabeth Ackroyd's appointment as Under-Secretary in charge of the Shipbuilding and General section of the Ministry of Transport was largely to deal with shipbuilding problems.

The government's view about the size of the industry, as stated by Vice-Admiral Hughes-Hallett in an adjournment debate in the House of Commons in December 1962, was that in the long-term some reduction in the existing capacity in Britain was inevitable; by how much was a matter of opinion.⁴² In the short-term the outlook was even more critical. Vice-Admiral Hughes-Hallett did not think that much benefit could be gained from proposals for an accelerated naval programme, tied aid, nuclear ships, or a scrap-and-build scheme.

The government therefore seemed to be regarding the problem as one of industrial decline rather than of industrial change. In doing so, it was undoubtedly influenced by the decline in world output between 1958 and 1961 (see table 3.4). Other things being equal, we should expect the willingness of governments to provide assistance to an industry (other than assistance to ease the rundown of an activity) to depend on the government's perception of the total market of the product. In other words, a government is more likely to assist an industry which is

42. HC Deb., 18 December 1962, cols. 1225-36.

currently uncompetitive if it thinks there is a large market in which the industry could share if its competitiveness was improved. Thus in the early 1960s one of the influences affecting the government's unwillingness to provide assistance was its view that decline was inevitable. By the mid 1960s this perception altered to the view that the market was an expanding one, and the government provided assistance in the hope of enabling the British industry to compete for its share. By the mid 1970s the market for ships was again seen as a declining one - at least in the medium term - and a government minister, this time a Labour one, could again be heard pronouncing on the inevitability of contraction (see section 7.7). In fact, by 1962 world output was already on the upturn, and Britain's output in that year represented an absolute as well as a relative decline at a time when the world market was expanding.

Table 3.4 UK and world completions of merchants ships, 1958-62.

Year	Completions (000grt.)		UK share of world tonnage (%)
	UK	World	
1958	1,464	9,059	16.2
1959	1,383	8,697	15.9
1960	1,298	8,382	15.5
1961	1,382	8,058	17.2
1962	1,016	8,182	12.4

Source: Cmnd 2937, appendix K, p.185.

3.5.2 Manufacture of building components in shipyards.

Further evidence of the government's concern about spare capacity in shipyards was provided in January 1963 with the appointment by Mr. Rippon, Minister of Public Building and Works, of a team to inquire into whether spare capacity in shipyards could be used to make products for housing and

other types of building. The report of the four-man team was presented to Mr. Rippon at the end of February, but was not published until the end of April.⁴³ The report indicated that many shipyards had spare capacity which could be used for making building components and listed the types of building components which seemed to be most suitable for production in shipyards.

Mr. Rippon announced that he was setting up three inquiry centres, in Glasgow, Newcastle and Manchester, to provide points of contact with potential clients.⁴⁴ Inquiries could also be made through offices of the Ministry of Public Building and Works. By December 1963, thirty shipyards had made enquiries and were put in touch with builders and others who might be able to make use of their facilities.⁴⁵ One ship-building firm had established a subsidiary company in cooperation with a builder to manufacture industrialised building components in the North-East. By February 1964, seven shipyards in Scotland and a number in England had entered the building field to a 'modest extent'.⁴⁶ At the end of 1965 it was revealed that no industrialised house-building was taking place in Scottish shipyards, though one firm was known to be considering future production.⁴⁷

Though a very interesting development in terms of the government encouraging diversification of industry, such a scheme could never have done more than provide small-scale relief to the problem of spare (i.e. non-competitive) capacity, and in practice appears to have achieved even less than expected. Given the government's view that contraction of capacity was inevitable it would have been logical for it to have offered incentives for diversification, since even the most fervent advocate of a

43. MPBW, 1963.

44. HC Deb., 30 April 1963, col.895.

45. HC Deb., 3 December 1963, written answers col. 149.

46. HC Deb., 18 February 1964, cols. 1006-8.

47. HC Deb., 8 December 1965, written answers col. 127.

free market will accept that the market will not necessarily deliver new job opportunities in the right place, at the right time and for the right skills, and shipbuilders themselves were highly unlikely to have spare capital available for diversification. The MPBW report, however, represented a short-term expedient rather ^{than} a clear selection of diversification as a strategy. When the unemployment actually manifests itself the government will almost always opt for doing something about it, as section 3.6 and indeed the rest of this study will indicate, but the option then chosen is likely to be to seek to maintain the jobs within shipbuilding - because by then there is rarely time to explore any other option.

3.6 THE SHIPBUILDING CREDIT SCHEME

3.6.1 Initial proposals.

Continuing dissatisfaction with the government's attitude, particularly on credit, was evidenced by a censure debate in the House of Commons in February 1962, on the government's shipping and shipbuilding policy and by an adjournment debate in December 1962 on shipbuilding.⁴⁸ By May 1963 the government clearly felt that more significant measures needed to be taken to help the industry with its problems. Apart from the continuing decline in the UK share of world output (see table 3.4), the government's change of tack can be explained by a number of inter-related influences. First of all, the industry's problems were now being reflected in a sharp drop in the numbers employed in new construction (see table 3.5). Secondly, the general level of unemployment had risen considerably since 1961. Finally, the new initiative in shipbuilding policy should be seen in the context of the government's changed attitude

48. HC. Deb., 15 February 1962, cols. 1526-655; HC. Deb., 18 December, 1962, cols. 1225-36.

to its role in the economy, as illustrated by the setting up of the NEDC.⁴⁹

Table 3.5 Employment in shipbuilding, 1958-1963.

Year	<u>Operatives (new construction)</u>		Other than operatives (shipbuilding & ship-repairing)
	Merchant	Naval	
1958	77,600	14,600	21,300
1959	80,100	13,600	21,100
1960	71,800	12,200	21,100
1961	58,600	9,600	20,400
1962	50,400	12,000	19,400
1963	47,900	10,800	18,100

Source: Cmdnd 2937, appendix E, p.172.

Even given the government's belief that in the long-term contraction was inevitable, the short-term problems were even worse - new orders in 1962 amounted to little more than 40% of recent output. The government had taken a close interest in shipbuilding since the beginning of the 1960s, even if this had at times been confined to exhortation, and clearly felt that it would be held responsible for any increase in unemployment if it failed to take action at this time. The form of action chosen was a shipbuilding credit scheme for loans to British shipowners.

At the end of May 1963 Mr. Marples announced that the government had decided to make funds available for a limited period at government lending rate to finance new orders from British shipowners for British shipyards.⁵⁰ The loans would be made to the shipowners on terms to be decided on the advice of an advisory committee to be set up under the chairmanship of

49. See Lervez, 1975, part 2.

50. HC Deb., 29 May 1963, cols. 1326-32.

Lord Piercy, the chairman of the Ship Mortgage Finance Company. The government was prepared to make available £30m in the first instance; they would consider raising the limit if experience showed that it would be right to do so. The scheme would not, in any case, continue beyond 31 May 1964. Loans in suitable cases could be for up to 80% of the cost of a ship; individual loans might be for up to 10 years.

3.6.2 Revisions of the scheme

It soon became clear that the £30m originally allocated to the scheme would be inadequate. By 24 July Mr. Marples had already approved the making of firm offers of loans of £13½m to build approximately 170,000dwt tons of shipping and applications were under consideration for another £27m to build about another 500,000 tons. The government therefore decided to increase the amount available to a total of £60m within the terms of the scheme as already announced.⁵¹ In announcing the new total Mr. Marples said that the relief it would bring to the shipbuilding industry would only be temporary and that he was, therefore, already discussing with the shipbuilders what action they proposed to take to secure the industry's long-term future.

The question of the size of the total to be made available under the scheme was complicated by the Cunard Steam-Ship Company's proposal to build a replacement for the Queen Mary. Cunard's previous proposal had been for a 75,000 ton ship to be employed all the time on the North Atlantic express service. Under the North Atlantic Shipping Act 1961 Cunard would have provided £12m and the government £18m at 4½% interest.

Cunard's proposal in 1963 was that the Queen Mary should be replaced by a ship of 58,550 gross tons which in addition to operating on

51. HC Deb., 24 July 1963, cols. 1461-5.

the North Atlantic express service would spend about three months of each year cruising. This ship would cost about £22m and the company proposed to put up £4m of this and asked the government to lend the remaining £18m over twenty-five years at 4% interest. Mr. Marples announced the government's rejection of this proposal in the same statement as the announcement of the new £60m limit to the credit scheme. He said that the new proposal was 'very different and, in general, a much less satisfactory one from a number of standpoints, including that of the taxpayer'. However, Cunard was eligible to apply under the credit scheme. Cunard decided that it would apply for a loan under the credit scheme, and agreement was reached between the government and Cunard for a £17.6m loan on terms less favourable than those previously requested by Cunard and refused by the government.

Although the Cunard loan was made under the scheme, it was in a way additional to it, since on the same day as the announcement of the Cunard loan the Ministry of Transport announced that the total amount available would be raised to £75m including the Cunard loan. By the end of October 1963 the Ministry of Transport had received applications under the scheme for loans exceeding the new £75m limit, and had therefore decided that no further applications would be accepted for consideration. The total amount available had been applied for four months before the Act of Parliament authorising the scheme came into force.

3.6.3 Impact of the Scheme.

It might appear that the government, in introducing the Shipbuilding Credit Scheme, had changed its earlier opinion that credit facilities were not an important factor in British owners' decisions to place orders abroad. However, in 1963 the concern was with the low overall level of new orders placed by British shipowners. The way in which the scheme was

introduced, and in particular the two revisions to the scheme, does suggest, though, that the Ministry was not certain what was the best method of dealing with the short-term problem.

Although the government's view was that there would have to be some contraction in the long term, it did not wish large-scale closures, particularly just before a General Election. The scheme chosen had the advantage of acting quickly to provide a breathing space, as well as being acceptable to both shipowners and shipbuilders. A total of 848,000 grt was constructed under the scheme, with work on all but the Queen Mary replacement (known as the Q4, and later the QE2) being started by mid-1964.

The Conservative government had stated its opposition to subsidy and was technically right in arguing that the credit scheme involved no subsidy since the Exchequer was not paying more for the money it lent than it charged the shipowners. However, the whole point of the scheme was that it made funds available at a cheaper rate than would normally have been charged. The scheme also involved an opportunity cost in public expenditure terms, since the £75m could have been put to other uses.

Any assessment of the effect of the scheme is complicated by the usual historical problem of establishing what would have occurred in its absence. It is quite possible that some shipowners anticipated that the government was going to make money available, and therefore postponed their orders until after the scheme was announced. There is some evidence which suggests that there would in any case have been an upsurge in orders as a result of an improvement in general trading conditions throughout the world; Mr. Marples mentioned this in his speech in the debate on the Second Reading of the Bill.⁵² It is difficult to assess

52. HC. Deb., 15 January 1964, cols. 236-7.

whether the scheme generated any new orders at all rather than merely accelerating them, but it did have the effect of providing a breathing space by concentrating orders in a period when they were much needed.

By October 1964 the effect of the scheme in terms of new work had passed. In the previous three months the volume of new orders had been about a quarter of what was needed to keep the yards busy. Of a total order book of 2.5m tons, two-thirds was already under construction.

3.7 TAKING STOCK

By 1964 the Conservative government's view that there ought to be a contraction in the industry had been fulfilled in practice to an extent which frightened the government. The number of operatives in merchant new construction had fallen from 80,100 in 1959 to 47,600 in 1964; between 1961 and 1964 six yards capable of building merchant ships of 5,000 gross tons and above (or naval vessels of equivalent value) had closed, though two were subsequently integrated with other yards. What really frightened the government was that there was no prospect of the downward slide being halted.

During the breathing space afforded by the credit scheme the Ministry of Transport put pressure on the shipbuilders to deal with the longer-term situation. In June 1964 the Ministry confirmed that it had been put to the shipbuilders that they should examine the whole matter of costs, plant and machinery in the period of higher orders resulting from the government credit scheme; they had been told that there should be a radical reshaping and reconstruction of the yards themselves.⁵³ However, this new-found enthusiasm for government-guided reorganisation had probably come at a time when reorganisation would be more difficult than

53. Times, 17 June 1964.

at the beginning of the 1960s (and to an even greater extent than in the mid 1950s). If the analysis of industrial decline in section 3.1 is correct, then by 1964 shipbuilding was well into the 'vicious circle' phase, with the prospects for recovery receding as the need for it increased. Recovery depended on the formal agreement and day-to-day behaviour of a large number of organisations and individuals not all of whom would regard it as being in their interest to cooperate in the measures necessary for recovery - unless sufficient financial inducements were offered to persuade them otherwise. It was a daunting prospect which faced the incoming Labour government in October 1964.

CHAPTER 4

FROM COMMITTEE TO LEGISLATION

4.1 THE SETTING UP OF THE GEDDES COMMITTEE

The incoming Labour government in October 1964 faced a situation in which the UK share of world shipbuilding output was less than a third of what it had been ten years earlier, and despite clear signs of a recovery in world output the absolute level of UK output continued to fall. (see table 4.1).

Table 4.1 UK and world completions of merchant ships, 1955-64.

Year	<u>Completions (000qrt)</u>		UK share of world tonnage (%)
	UK	World	
1955	1,322	4,967	26.6
1956	1,457	6,291	23.2
1957	1,421	8,117	17.5
1958	1,464	9,059	16.2
1959	1,383	8,697	15.9
1960	1,298	8,382	15.5
1961	1,382	8,058	17.2
1962	1,016	8,182	12.4
1963	1,096	9,028	12.1
1964	808	9,724	8.3

Source: Cmnd 2937, Appendix K, p,185.

The government's response was to decide very early on in its term of office that there should be an independent committee of inquiry into the shipbuilding industry.¹ The purpose of this inquiry was to establish how the industry could best be equipped and organised to make

1. Times, 11 November 1964. The announcement was made from Downing Street, rather than the Board of Trade, the department newly responsible for shipbuilding.

it fully competitive and what action should be taken by management, trade unions and the government to this end. Thus from the start the committee was given a more positive role than merely looking at the 'prospects' for the industry, which had been the brief of the SAC subcommittee in 1960 (see section 3.4).

Why was this particular form of inquiry chosen? There was a departmental view or 'folk-knowledge' at the Board of Trade, to which the new government had transferred shipbuilding and shipping, that management consultants should not be used for this type of problem but should only be used for 'management problems' such as, for example, to decide on the best structure if a prior decision had been taken to nationalise the industry.² The Shipbuilding Advisory Committee was not considered suitable because it met infrequently and its members had vested interests. Similarly, because of the need to be seen to be fair the inquiry could not be carried out by a special committee of those involved in the industry. As for the Board of Trade, it could not carry out the inquiry itself because of its workload and because of the need for a management approach. By a process of elimination, therefore, the form chosen was considered most suitable.³

2. Interview with Mr. V.I. Chapman, secretary to the Geddes Committee. 7 November 1973.

3. The question was naturally raised about whether, in view of the various inquiries about the industry in the early 1960s, there was any need for a further inquiry. One ministerial reply revealed an alarming degree of ignorance about the recent history of the industry. In a Supplementary Question in the House of Commons Mr. Edward Taylor asked whether there was a danger of ignoring the Shipbuilding Advisory Committee's Report. Mr. Roy Mason, Minister of State at the Board of Trade responsible for shipping and shipbuilding, replied 'The hon. Gentleman must know that this was the Patten (sic) Committee, which was formed of a team of shipbuilders who were themselves looking at shipbuilding and shipbuilders' (HC. Deb., 4 March 1965, col. 1509). In fact, the Report of the Shipbuilding Advisory Committee, the Dunnett Report, was a completely different report from the Patton Report, published in 1963; see sections 3.3.3 and 3.4.

These points about the type of inquiry needed were reflected in the membership and terms of reference of the committee. The terms of reference, which were announced on 2 February 1965, over two months after the initial announcement about the setting up of the committee, were:

- '(a) to establish what changes are necessary in organisation, in the methods of production, and any other factors affecting costs to make the shipbuilding industry competitive in world markets;
- (b) to establish what changes in organisation and methods of production would reduce costs of large main engines to the lowest level; and
- (c) to recommend what action should be taken by employers, trade unions, and government, to bring about these changes'.⁴

The committee was to be concerned with shipyards regularly building vessels of 5,000 gross tons and above (or naval vessels of equivalent value), but would also be able to consider the implications of their investigations for shipyards building sea-going vessels of lower tonnage; the committee was also to consider the manufacture of steam turbines and slow-running diesels normally installed in ships of 5,000 tons and above.

As is usual for such committees, the chairman was the first member of the committee to be selected, and his appointment was announced at the same time as the terms of reference. Mr. Reay Geddes, managing director of the Dunlop Rubber Company, was the person chosen. At that time Mr. Geddes was a member of the National Economic Development Council, but he was released from the Council to take on the chairmanship of the inquiry committee. Mr. Geddes was regarded as being a dynamic industrial leader and, of particular relevance to shipbuilding, was

4. HC. Deb., 2 February 1965, written answers cols. 272-3.

interested in achieving productivity through enlightened labour relations.⁵ His firm had been the first to issue an individual 'statement of intent' following the national joint declaration on productivity, prices and incomes in December 1964.

The selection of the remaining members of the committee, whose names were announced on 12 February 1965, appears to have followed normal practice for such committees by which the Permanent or Deputy Secretary of the department invites potential members, in the first place over the phone, sometimes after consultation with the chairman. There was a deliberate attempt to balance the committee, with a trade unionist, an academic economist who was also a Scot, and experts in research and development, accountancy, management, and engineering. The very nature of the committee excluded anyone who was directly involved with shipbuilding, though one member, Mr. Burney, had previously advised the Ministry of Transport on shipbuilding credit (see section 3.4.1). The secretary of the committee was Mr. V.I. Chapman, who had been made head of the shipbuilding branch at the Board of Trade, though he ended up spending virtually all his time as secretary to the committee.⁶ Mr. A.J. Suich, a principal in the shipbuilding branch, was assistant secretary to the committee.

4.2 POLICY BEFORE THE PUBLICATION OF THE GEDDES REPORT

It must be remembered when focussing on the problems of a single industry that shipbuilding was only one of many problems facing the new Labour government in 1964, though some of these problems impinged on shipbuilding. A few days after taking office the Labour government introduced a number of measures designed to improve the balance of payments. Among these

5. See Times, 3 February 1965.

6. Interview with Mr. V.I. Chapman. 7 November 1973.

were export rebates - a repayment to exporters of sums broadly equivalent to the amount of certain indirect taxes which entered into the cost of production of exported goods - and a temporary import surcharge of 15%, with re-exported goods being relieved of the charge. At first it appeared that ships would be liable to the import surcharge, which would have led UK shipowners to avoid 'importing' ships for the duration of the surcharge, and would have been unlikely to have led to orders being diverted to UK yards. For its part, the Shipbuilding Conference was concerned about the adverse effect the surcharge might have when applied to imported equipment for ships being built on fixed-price contracts. However, in his Budget statement on 11 November Mr. Callaghan announced a number of exemptions from the import surcharge, among which were ships of 80 tons or more and components used by British shipbuilders in the manufacture, repair or refitting of large ships.⁷

Shipbuilders also benefited from new general arrangements for the provision of finance for export credits given to overseas buyers which were announced by the Bank of England at the end of January 1965. During the Budget debate in April Mr. Jay, President of the Board of Trade, claimed that the effect on shipbuilding orders of this extension had been even more encouraging than the government had expected.⁸ Since January overseas orders for ships to be built in Britain had increased sharply and new enquiries had doubled. At the same time Mr. Jay announced further improvements in export facilities applying to industry generally. As on previous occasions these improvements in export credit facilities provoked calls for improvements in credit facilities for British shipowners ordering from British shipyards. A decision on the

7. HC Deb., 11 November 1964, cols. 1027-8.

8. HC Deb., 8 April 1965, cols. 684-7.

provision of home credit facilities did not, however, come until after the publication of the Geddes Report.

Although the formulation of a definitive policy for the shipbuilding industry had been postponed until after the Geddes Committee had reported, Mr. Mason, Minister of State at the Board of Trade responsible for shipping and shipbuilding, outlined how government policy was shaping up in speeches during tours of shipyards and elsewhere. In doing so he attacked both shipbuilding employers and unions. During a visit to yards in Lowestoft in October 1965 Mr. Mason said that British shipbuilders spent too much time squealing about the shortage of labour; this could be eased by better use of the available labour and the ending of many of the restrictive practices.⁹ He also said that it was time the unions did some fresh thinking about training schemes for workers. At the Scottish TUC in November 1965 Mr. Mason tried, in his own words, 'to kill a lot of the old dogmatic slogans that have been in various resolutions for many years'.¹⁰ He told the trade unionists that nationalisation was not the answer and that subsidising the industry was no way to make it more competitive. A policy of scrap-and-build was 'poppycock' because the average age of the British merchant fleet was about nine-and-a-half years.

By ruling out a number of options in this way, Mr. Mason effectively restricted the government, if it wanted to take part in improving British shipbuilding's competitive position, to action roughly along the lines of the Geddes proposals which appeared a few months later. It is in this context that the Geddes Report and the government's acceptance of it should be seen.

9. Times, 8 October 1965.

10. Times, 6 November 1965.

4.3 FAIRFIELDS

4.3.1 The collapse of the old Fairfield company

The precarious state of some parts of the shipbuilding industry while it was 'waiting for Geddes' was illustrated by the rescue of the Fairfields yard from closure after a receiver had been appointed on 15 October 1965. The Fairfield Shipbuilding and Engineering Company owned a large shipyard on the upper Clyde, which together with its engineering subsidiary, Fairfield Rowan Ltd., employed about 5,000 workers. Efforts to save the company concentrated on the shipyard rather than the engineering subsidiary, which went into liquidation. This section will describe how the government became involved in what came to be known as the Fairfields Project, and the incorporation of the Fairfields yard into UCS is considered in section 5.2.2.¹¹

The central figure in the attempt to turn the difficulties of Fairfields into an opportunity for an experiment in industrial management and industrial relations was Iain Stewart. Iain Stewart was chairman of Hall-Thermotank Ltd., which had factories in Govan near the Fairfields yard, and was also a director of a number of other companies. Throughout the 1960s he had been advocating measures to improve industrial relations. He had argued that insecurity and inadequate information were the real causes of industrial conflict in Britain and had proposed a national scheme to remove workers' fears of unemployment and a lower standard of living.¹² Before the collapse of Fairfields Iain Stewart had already been negotiating a scheme under which workers who became redundant at Stephen's shipyard on the Clyde could be employed on special city building projects created by Glasgow Corporation. He therefore saw the

11. For accounts of various aspects of the Fairfields Experiment see Alexander and Jenkins, 1970; Paulden and Hawkins, 1969; Houston, 1967.
 12. Paulden and Hawkins, 1969, p.6.

Fairfields yard as providing an opportunity to put his various ideas into practice.

As soon as they learned of the threatened closure, Fairfields shop stewards and local MPs made representations to the government to keep the yard going. Initially the Board of Trade was the department involved, but the major initiatives completely by-passed the Board of Trade. For example, John Rankin, the Labour MP for Govan, approached the Chancellor of the Exchequer and the Prime Minister directly.

On 4 November 1965 Mr. Callaghan, the Chancellor of the Exchequer, told the House of Commons that the Bank of England would advance up to £1m to keep the shipyard and its subsidiary open until the early spring.¹³ On the previous Friday, 29 October, the receiver, together with the treasurer of the Bank of Scotland, had come to see Mr. Callaghan and had told him that the company's sources of finance were exhausted and that closure of the yard could be avoided only if immediate financial help was given. This would give time for an assessment to be made of the prospects for long-term viability of the yard. The government had concluded that the future of the yard should be held open until they had received and considered the Geddes Report, which was expected by the following February. The money was to be made available solely to keep the position open.

4.3.2 Developments during the breathing space

The way in which this £1m was made available to Fairfields without the Treasury making inquiries and without a government shareholding was thought stupid by Derek Palmer, a merchant banker who had been seconded to the Department of Economic Affairs (DEA) in 1965.¹⁴ He also happened

13. HC Deb., 4 November 1965, cols. 1234-9.
14. Paulden and Hawkins, 1969, pp.18-23.

to have been Iain Stewart's financial adviser for some years and therefore provided an inside contact for Stewart's proposals. Palmer was responsible for developing the formula of a fifty-fifty partnership between government and private investors and for persuading George Brown that Stewart should be chairman of a new Fairfields company. For his part, George Brown enthusiastically promoted the idea once he had accepted it and introduced the idea of union participation in the investment.

As a result of this initial inside contact through Derek Palmer Stewart sent a letter to George Brown outlining his view that the situation presented an opportunity to expose the problems of shipbuilding and to 'grasp the nettle' of overmanning, demarcation and management problems. In return George Brown telephoned Iain Stewart to discuss the project. A number of discussions were held with Stewart and Palmer to develop ideas. James Callaghan became more favourable to the project following a chance meeting with Iain Stewart on 23 November. This support, and that of the Secretary of State for Scotland was particularly necessary because the Board of Trade, the sponsoring department for shipbuilding, was one of a number of departments opposed to the project.¹⁵

At the end of November the Cabinet agreed in principle to the fifty-fifty partnership formula, and on 1 December the DEA officially invited Iain Stewart to be chairman of the proposed company. Stewart accepted on condition that the unions agreed in advance to his new terms of work. Stewart and Palmer met members of the Scottish TUC on 3 December and obtained their support on condition that Stewart also obtained the approval of national union leaders. A meeting was therefore arranged

15. Brown, 1971, pp.121-2. Private information confirms the opposition of the Board of Trade; interview with former civil servant, 30 November 1973.

on 7 December with the unions' national executives, which gave their approval after an enthusiastic exposition of the proposals by George Brown.

News of the moves leaked out and appeared in newspapers on 9 December, though it was incorrectly assumed that Stewart was acting as chairman of Hall-Thermotank rather than as an individual. George Brown made a holding statement to the Commons on the same day.¹⁶ Iain Stewart also issued a press statement that evening.¹⁷ He would become chairman of the new enterprise on the understanding that the unions would give their unreserved cooperation to the management in introducing flexibility and interchangeability between the trades at Fairfields. He explained that:

'Broadly speaking, this means that the management would have complete freedom to introduce a variety of new techniques. Fairfields would become a proving ground for new ideas, new methods and the elimination of unnecessary practices if the plan is acceptable. These measures, I believe, would not only re-establish the company as a commercially viable unit, but would also enable the men to share in the prosperity which can be achieved by proved productivity performance'.

On the following day, 10 December, a mass meeting of Fairfields workers voted overwhelmingly to support the scheme promoted by George Brown and Iain Stewart. However, a meeting to be addressed by Stewart himself on Monday 13 December, was postponed until after the problem of financing the new company had been settled.

16. HC. Deb., 9 December 1965, cols. 618-23.
17. Paulden and Hawkins, 1969, pp.28-9.

4.3.3 Formation of Fairfield's (Glasgow) Ltd.

The fortnight following George Brown's statement in the House of Commons was taken up with attempts to find financial backers and management for the new company. Sufficient progress had been made in negotiations to enable George Brown to make a further statement to the House of Commons on 22 December.¹⁸ He said that, although he was not able to give details, arrangements had been made to safeguard the future of Fairfield's shipyard. There was now the foundation for a financial partnership between the government, private enterprise and the trade unions. Two major unions had expressed the intention of participating and discussions were going on with others. The government would hold half of the equity of the new company, Fairfield's (Glasgow) Ltd., and the other half would be shared between the other partners.

The postponed mass meeting to be addressed by Iain Stewart took place on 27 December and he outlined his proposals in detail to the men.¹⁹ Employment conditions at Fairfield's were to be isolated from national, district or local agreements. The men would have to promise to eliminate strikes, go-slows and overtime bans, to allow free movement between jobs as demand fluctuated, and to cooperate with modern management techniques. In return there would be retraining to eliminate the fear of unemployment, union representation on the Fairfield's board and regular reports from the chairman to the employees. The men supported these proposals by a show of hands. No written agreement was made; Stewart had said that he was prepared to accept their public endorsement of his conditions. The publicity surrounding Fairfield's during its new life was a deliberate policy of the Fairfield's management.

18. HC Deb., 22 December 1965, cols. 2102-7.

19. Paulden and Hawkins, 1969, pp. 49-51.

The new company was formed on 7 January 1965. However, before then problems arose when the AEU, the TGWU and the NUGMW withdrew their offer of financial participation when they discovered that their constitutions did not allow them to invest funds in unduly risky enterprises. Lord Thomson and Isaac Wolfson also withdrew when they learned that the unions were no longer making a financial contribution. George Brown offered his resignation to the Prime Minister. However, Iain Stewart offered to guarantee Thomson's and Wolfson's cash personally if the unions were not able to take up shares, and George Brown cancelled his resignation. This secret agreement enabled the company to be launched even though it took a further six months for the unions to alter their constitutions to enable them to take up shares. The final shareholdings are shown in table 4.2.

Table 4.2 Shareholdings in Fairfields (Glasgow) Ltd.

<u>Unions</u>	NUGMW	£50,000	
	CAWU	£ 5,000	
	AEU	£50,000	
	ASW	£25,000	
			£130,000 (+ £50,000 loan from ETU)
<u>Private</u>	Stenhouse Investments	£50,000	
	Pennant Finance (Wolfson)	£100,000	
	Thomson Scotland	£150,000	
	H.K. Salveson	£100,000	
			£400,000
<u>Government</u>			£530,000
<u>Total</u>			£1,060,000

Source: Paulden and Hawkins, 1969, p.86.

The total capital of Fairfields (Glasgow) Ltd. at the time of its formation was £2m, consisting of one million £1 ordinary shares and £1m 7% unsecured loan stock.²⁰ The Board of Trade acquired half the ordinary

20. HC Deb., 8 February, written answers cols. 46-7.

shares and subscribed the whole of the loan stock. The government, by virtue of its shareholding, was entitled to nominate one director, and the other shareholders three. The government nominated as its director Derek Palmer, who had been closely involved in the initial negotiations about the new company.

4.3.4 The politics of ad hoc intervention

Government involvement in the setting up of the new Fairfields company was characterised by a number of features which are of more general interest in discussing ad hoc interventions as opposed to involvement in the industry as a whole. The first of these relates to the timing of the collapse of the old company. Because the Geddes Report was due to make recommendations on the whole industry within a few months, the government felt it necessary to keep the yard in operation until any part it could play in the committee's recommendations became clear. Thus there was a greater chance of a government-backed rescue attempt to keep a yard open during the period from the setting up of the Geddes Committee to the implementation of its recommendations than there would have been at any other time.

The role of the various personalities involved in setting up the new Fairfields company was crucial. George Brown's enthusiastic advocacy of the scheme was vital in persuading the government to back it. There seems to have been an element of chance in the responsibilities held by the various people involved at the very beginning - Derek Palmer, who happened to be seconded to George Brown's department, happened to have been the financial adviser of Iain Stewart, who happened to live and work close to the Fairfields yard.

George Brown's personal enthusiasm was all the more important in getting the scheme accepted because he had to override the opinion of

the department responsible for shipbuilding.²¹ This appropriation of responsibility could only have arisen with an ad hoc intervention; George Brown would not have been able to launch a similar scheme to cover the whole industry. This clash of responsibility did not go unnoticed in the House of Commons and was one of the points raised by the Opposition when George Brown made his statement on 9 December 1965. This question of responsibility for Fairfields was also raised by Mr. Grimond in February 1966, and in reply Mr. Wilson said that responsibility for the shipbuilding industry was with the Board of Trade, but that the question of the Fairfields decision arose out of the very serious regional problems with the threat of the overnight closure of a major shipyard.²² This was, indeed, the opening which enabled George Brown to promote the project, but the government's real view about where the responsibility ought to lie is shown by the fact that the government's shareholding in Fairfields (Glasgow) Ltd. was held by the Board of Trade, not the DEA.

The government's relationship with the new Fairfields company clearly shows that there was no thought out procedure for obtaining information about companies which had been subject to ad hoc government intervention. As we have seen, although the DEA was the department involved in setting up Fairfields, the government shareholding was held by the Board of Trade. However, Derek Palmar, one of the men most directly involved in promoting the Fairfields project, was appointed government director, and as well as sending reports to the Board of Trade he sent copies to George Brown.

21. See also section 9.2 on departmental responsibility for shipbuilding.
22. HC Deb., 1 February 1966, cols. 878-9. Mr. Wilson's answer as recorded in Hansard is obscure. It says, in part: 'The Fairfields decision ... arose out of the very serious regional problems - for which the Board of Trade is responsible - with the threat of overnight closure of a major shipyard.' Regional planning (but not distribution of industry functions) were, of course, the responsibility of the DEA, which is presumably what Mr. Wilson meant to say.

When George Brown became Foreign Secretary in August 1966 his ability to influence the government's attitude to Fairfields obviously diminished and it vanished altogether with his final departure from the government. A further change occurred with the transfer of shipbuilding to the Ministry of Technology under Mr. Benn, who did not have the same personal commitment to the project as George Brown.²³

For his part, Iain Stewart treated the government in the same way as any large shareholder who did not have an absolute majority of shares, and he did not concede any special influence to the government. This obviously led to friction. When Sir Jack Scamp was appointed to the Fairfields board, Benn complained to Stewart through Palmer that he had not been consulted before the appointment.²⁴ In reply, Stewart made it clear that it was not the custom of a board to ask its shareholders' permission to appoint directors, but merely to inform them after the event, and that any shareholder was able to express his views about a director at the Annual General Meeting!

Iain Stewart later came to the conclusion that it had been a mistake to treat the government as an ordinary shareholder.²⁵ His relations with the government during the time of the Fairfields experiment had been virtually nil because he did not want Fairfields to be seen as a government venture. However, eighteen months after the formation of

23. The account of changes in Ministers concerned with Fairfields which is given on p.5 of Paulden and Hawkins, 1969, is inaccurate. The authors state that the Fairfields shareholding was transferred to the Ministry of Technology while Frank Cousins was still Minister. In fact, shipbuilding, including Fairfields matters, was not transferred to the Ministry of Technology until November 1966, by which time Mr. Benn was Minister. The announcement of the proposed changes, had however, been made in June 1966 while Cousins was still Minister. (See section 9.2 on departmental responsibility for shipbuilding). Thus, the statement in their book 'Derek Palmer sent his reports to Frank Cousins, with copies to George Brown, by now the Foreign Secretary, must be doubly inaccurate, since Cousins resigned shortly before George Brown became Foreign Secretary in August 1966.

24. Paulden and Hawkins, 1969, p.88.

25. HC 347-II, Session 1971-2, Q.2271-7.

Fairfields there was a completely different set of faces in the relevant ministries and instead of providing a sympathetic ear and the understanding which had existed in 1965 they were concentrating on the SIB as an instrument of government policy. Iain Stewart therefore found that any effort to contact people in Whitehall and make a point was hardly worthwhile, since there was a great deal of euphoria about the SIB and Upper Clyde. With hindsight, he thought that he 'should have been much more in contact with the different ministers and have been in the thick of the changing scene much more'.²⁶ Just how important this point was will be seen in section 5.2.2 dealing with the absorption of Fairfields into UCS following the Geddes recommendation that there should be estuary-based groupings of shipyards.

4.4 THE GEDDES REPORT

4.4.1 The committee at work

The committee carried out its inquiry in a number of ways.²⁷ Evidence was received from the central organisations of the shipbuilding industry, all the shipbuilding and marine engineering firms covered by the inquiry, the TUC, the CSEU and a number of individual unions, a large number of shipping firms, all the government departments in any way connected with shipbuilding, and a number of other organisations, companies and individuals. In addition to written submissions, the committee held formal meetings with many of those who had presented evidence. Because the government submitted evidence to the committee, the secretary to the committee, who was also head of the shipbuilding branch at the Board of Trade, found himself drafting both letters during one exchange of

26. Similarly, Mr. Hepper, chairman of UCS, felt after UCS had gone into liquidation that the situation would have developed more satisfactorily if he had had better personal contacts with Whitehall; HC 347-II, Session 1971-2, Q.2145-7.
27. See Cmnd 2937 (Geddes Report), p.7.

correspondence!²⁸ However, much of the work was done less formally by discussion with groups and individuals; the chairman placed great stress on the informality of the committee.²⁹ Members of the committee visited all the twenty-seven yards covered by the inquiry as well as a number of suppliers and other firms. Whenever possible, such visits included meetings with shop stewards and people interested in regional development. Committee members also visited shipyards and engine works in Denmark, Sweden, Norway, Germany, the USA and Japan and had discussions with shipbuilders there. Not all the committee members went on each excursion. Accountants also visited each firm and reported to the committee, and the head of each firm was seen privately to discuss future plans. In addition, the committee commissioned a survey on the market for ships from a firm of management consultants.³⁰

The amount of time spent by members on committee work varied considerably but was generally large; Geddes himself spent nearly all of his time on committee work, as did the secretary of the committee. More work was done by the committee than is recorded in the report. Representations were made to committee members in private. There were discussions on particular problems by the chairman, secretary and one of the other committee members. When it came to the drafting of the report, the preamble was written by Geddes himself, most was drafted by the secretary, and early drafts of some chapters by other individual committee members.³¹ There were several drafts of some sections and some changes were made in policy recommendations in the meetings considering the draft of the report. However, due at least partly to the chairmanship

28. Interview with Mr. V.I. Chapman, secretary to the Geddes Committee. 7 November 1973.

29. Interview with Sir Reay Geddes. 4 April 1974.

30. See section 1.4.2 on forecasting.

31. Interviews with Sir Reay Geddes and Mr. V.I. Chapman. This is normal practice for committees of this kind; see Chapman, 1973, pp.183-4. (Interviews on 4 April 1974 and 7 November 1973.)

of Geddes, there was no question of there being a minority report, though committee members were aware of their right to produce one. Roy Mason was occasionally consulted about recommendations in final draft sometimes personally but more often through the secretary and the department; this was done to enable government to raise points about recommendations, but there were a number of points which the committee were determined to include.

The committee succeeded in meeting Mr. Mason's request that the committee should try to report within twelve months, though one member of the committee felt that the inquiry was conducted too fast, and that they were only beginning to know the industry by the time they had finished work.³² The length of the report, 156 pages plus 44 pages of appendices, reflected the thoroughness of the committee's work. A short version of the report was also drafted; special effort was made to produce a colourful, attractively laid out booklet. A copy of this was sent to every shipbuilding employee at his home to arrive on a Saturday morning - so that the wives would ask about it.

4.4.2 The Geddes approach

The preamble to the report suggested that shipbuilding might be a test case for British industry: 'for the next generation the ship will remain a very good example of a product constructed and fitted out in ways which give scope for a high quality of design, production engineering, planning, organisation and control, and accurate, steady individual work'. On the other hand, the report mentioned the special nature of the industry - all British-built merchant ships were sold in the open unprotected market, so all prices had to be at world levels and all deliveries had to be on time.

32. Interview with member of the Geddes Committee. 18 April 1974.

The Geddes Report explicitly rejected the more usual approach as found in, for example, the SAC Report of 1961, that British shipbuilding should rely largely on British shipowners for their orders. The committee's view was that 'the only satisfactory way to study future demand is to examine the world market and British prospects of competing in it'.³³ This approach had the consequence that the market for British shipbuilding was seen as a potentially expanding one.

The recommendation with the greatest significance in terms of government action, and the one which eventually came to dominate all the others, was that the industry should be restructured so that existing enterprises were merged into four or five regionally based groups and that a government financed Shipbuilding Industry Board should be set up to promote this reorganisation. The committee did not consider that continuing evolution along existing lines or the extension of voluntary co-operation between shipbuilders were likely to lead to the emergence of such shipbuilding groups. In discussing whether the safest course would be to support normal evolution by government assistance in the form of subsidies and of credits for home shipowners to build in UK yards, the report did not think that a long period of government support would result in the formation of large groupings. Pointing to the experience of the United States, France and Italy the report considered that it was more likely that the industry would come to rely increasingly on such support.

Although the report advanced highly plausible benefits to be gained from grouping - a group could better support the strengthened management structure advocated by Geddes and could secure better allocation of labour by transfers between yards - no attempt was made to quantify the benefits or the costs of different types of groupings. Vickers

33. Geddes Report, 1966, p.36.

emphasises that 'All new organisations are bound to face extraordinary difficulties of communication until they have had time to build up common frames of reference'.³⁴ The Geddes Report recognised that extra costs would arise during the period of reorganisation and proposed grants up to a ceiling of £5m to meet transitional losses (see section 4.4.3); however, in the absence of quantification of costs arising from reorganisation it is difficult to be sure that this was an adequate sum. One of the benefits expected from large groupings was that each yard could specialise in building one kind of ship. However, Austin and Pickersgill demonstrated that it was possible to specialise without large-scale groupings (though it did merge with Bartram). Even given that there were gains to be made from grouping (and the case was sound in principle) different combinations of yards would obviously have different costs and benefits. Some academics were approached to carry out a study but none were free at short notice. The committee assumed that SIB would carry out examinations of the best form of groupings and the benefits to be obtained. However, as we shall see in chapter 5, this is not how the SIB approached the desirability of particular groupings. In considering the emphasis placed on groupings in the Geddes Report it is important to bear in mind that the recommendation was made at a time when there were great hopes of making British Industry as a whole more competitive through restructuring. This was reflected in the setting up of the Industrial Reorganisation Corporation (IRC) in the same year as the Geddes Committee reported.³⁵

The report rejected a scrap-and-build scheme for similar reasons to those given by both Conservative and Labour ministers in the 1960s. The

34. Vickers, 1971, p.27.

35. On the IRC see Young and Lowe, 1974, part II.

committee's desire to avoid political controversy is explicitly revealed in its comment on the CSEU's proposals for nationalisation: 'Any long term gains would have to be very clear to justify making the industry a centre of political controversy by taking action to nationalise it'.³⁶ Neither nationalisation nor state participation were recommended by the report since they were not considered necessary to produce the desired improvement in competitiveness. It was suggested in section 4.2 that the type of action which the Geddes Committee might recommend had already been prejudged to a considerable extent by ministerial statements. This is not to imply any improper pressure by ministers on an independent committee. It is simply that any committee of this kind will reflect attitudes common at the time and will want to formulate its recommendations in such a way that they have a reasonable chance of acceptance by the government and others concerned. This does not mean that the Geddes recommendations were determined before the report was written; there was a range of types of machinery and amounts of money which the committee might have recommended. As will be argued in chapter 5, government policy following Geddes was not, in any case, the complete implementation of the report which has sometimes been suggested.

The committee considered a number of the arguments which had been put forward for government assistance to shipbuilding before going on to give its own justification for the measures it recommended. The argument that there had to be a British shipbuilding industry to support the British fleet was rejected. The fastest-growing merchant fleets, Norway, Greece and the flags of convenience, were not backed by large national shipbuilding industries, and British shipowners themselves made it clear that they did not regard their future as dependent on the maintenance of the

36. Geddes Report, p.94.

British shipbuilding industry. Nor did the committee accept the argument that the decline of the British shipbuilding industry might lead to a monopoly in the supply of big ships. This situation could not come about suddenly, and there was no reason to believe that Japan wanted it. The report also argued that there was no justification on defence grounds to maintain an uncompetitive merchant shipbuilding industry on a permanent basis; the Ministry of Defence itself told the committee that it would not regard any government support for British merchant ship production as a proper charge on the defence vote.

Balance of payments arguments were difficult to disentangle from the more general question of the competitiveness of the industry. The committee accepted that the whole production of shipbuilding, as of many other industries, helped the balance of payments in that it either added to exports or reduced imports. Shipbuilding would make good use of the country's resources if it was successful in competing profitably both for orders and for resources on the home market. It could be argued that it would be wasteful to transfer the resources to other industries, but since 'this transfer would be a gradual process for the country as a whole' the committee did not recommend the permanent maintenance of the industry at an uneconomic size.³⁷ The use of the phrase 'gradual process for the country as a whole' reveals the committee's political innocence. Shipbuilding has been a political problem to governments not because of its role in the country as a whole but because it is highly concentrated in specific locations where the effects of a closure might be considerable (see section 1.3.2).

Similarly, the committee did not think it consistent with government regional policy to prop up an industry which was not competitive, though it recognised that Northern Ireland might face a special problem.

37. Geddes Report, p.133.

This rather remarkable conclusion was reached by accepting at face value the government's claim that 'the Government's regional policies are in fact based on preventing any avoidable hardship during transfer, on providing retraining and on encouraging the location of growth industries in areas prone to unemployment'.³⁸ However, as the history of government involvement in the British industry in the 1960s and 1970s shows all too clearly, governments will intervene to prop up companies in areas of high unemployment. Earlier in the report the committee had remarked: 'The growth of competitiveness is the surest way for the industry to offer attractive regular employment to a substantial labour force, with the possibilities of a career for those who desire it. The size of the labour force maintained will depend on the amount of business which can be regularly competitively procured and it may not be geographically distributed as at present'.³⁹ However, it is precisely the geographical distribution which is of political significance. Even if the total industry labour force remained roughly constant (as it did between 1967 and 1971) there will still be repercussions from actual or potential redundancies in individual locations. It was not part of the committee's remit to consider the social and political consequences of such redundancies, but the absence of a specific and visible programme to deal with the certainty of redundancies made it very unlikely that unions would co-operate fully in measures to increase competitiveness if these had the effect of reducing the size of the labour force required. This would reduce the chance of the firm becoming competitive and increase the chance of redundancies through collapse of the firm; this in turn would increase the chance of government intervention to 'save' the jobs by

38. Geddes Report, p.134.

39. Geddes Report, p.115.

subsidising their continuation within shipbuilding.

Having rejected these justifications for government support to shipbuilding, the report advanced its own: it was the prospect of British shipbuilding becoming competitive, given the likely growth of the world market for merchant ships and the implementation of the recommendations outlined in the report which constituted the case for government action to assist it. Unfortunately 'becoming competitive' is not a very precise phrase; one can ask 'competitive when and given how much government aid?' The report set out a timetable and a programme of assistance for the industry as a whole, but the criterion of competitiveness (or the even vaguer 'potentially commercially viable') was applied much more loosely in practice to individual firms (see chapter 5).

One of the great merits of the Geddes Report was the stress that it laid on the need for both sides of the industry to take action if government assistance was to contribute to competitiveness. The committee therefore recommended that the government should not commit itself to special temporary financial assistance unless the industry indicated its own willingness to make the necessary changes, and that steady progress by the industry should be a condition of the extent of the assistance given within the proposed ceiling figures. This proposal contains an element of 'Catch 22' paradox: if progress depended on the availability of government assistance how could progress be a prior condition of government assistance? To be fair to the committee the paradox was not complete: the payment of tranches of government assistance for capital investment or working capital could be made dependent on better performance on the basis of existing resources. (The parallel with government assistance to British Leyland in 1975-6 is obvious). However, this approach depended on two assumptions which turned out to be false in practice: that firms could survive without immediate government

assistance, and that if performance by a firm failed to improve sufficiently the government would in fact be prepared to cut off further assistance and allow the company to collapse.

4.4.3 Recommendations for government action

The government as customer. In addition to suggesting government financial assistance, the report made a number of other recommendations for government action to improve the competitiveness of the industry. For example, the report argued that the competitiveness of the industry was impaired because naval work was so widely distributed among the twelve yards of the Warship Group. This meant that no yard could concentrate on sophisticated work and such work had to be mixed with the production of tankers, bulk carriers and other cargo vessels. The committee therefore recommended that orders for large naval ships should be concentrated in three yards as part of the programme for nationalisation of the industry.

International relations and credit for home owners. The Geddes Committee considered that shipbuilding industries in some other countries enjoyed advantages which distorted international trade in ships. In particular, production was directly subsidised in some advanced countries such as the USA, France and Italy, while in Japan, not only was an export finance scheme operated by the government, but credits were also given to home owners at a subsidised rate. There was also the risk that other shipbuilding countries in the EEC might start subsidising production.

The report recommended that Britain should urge through the OECD the establishment of a suitable forum for discussion between governments and shipbuilding industries with the following objects:

1. improving statistics of capacity and output;
2. assessment of the future market for various types of ships;

- 3. evaluation of various measures of government assistance;
- 4. influencing governments to reduce and eliminate assistance which withdrew sectors of the world market from international competition or gave a particular shipbuilding industry a dominating position in the world market.

The British shipping industry, supported by the British shipbuilding industry, had been pressing for home credit facilities to be made available on the same terms as those available for export credit. The evidence presented to the Geddes Committee, however, was that many British shipowners preferred to use their own financial resources for purchases and that orders placed in Japan by British owners had gone abroad because the Japanese offered a lower price for these particular ships rather than because of credit terms. The committee recognised that there must be a point at which individual orders from British shipowners might go abroad because they did not want to finance their orders and could not obtain credit as cheaply in Britain as abroad, but put forward a number of arguments against taking action in anticipation of such a situation:

- 1. It was the level of profitability in the industry which jeopardised its survival and not a shortage of orders. While costs were rising fast an overlong order book might even be a disadvantage.
- 2. Japan was the only major shipbuilding country to operate such a scheme of credits for home owners, and it might be undesirable for Britain to encourage a race in such credit arrangements. It would be better if a reduction could be negotiated in all artificial aids to shipbuilding, leading to their eventual elimination.
- 3. A credit scheme for home owners which was not tied to a scheme of reorganisation and rationalisation in shipbuilding would tend to maintain the less competitive units in production. Some closures might have been averted by the Shipbuilding Credit Scheme of 1963.

The committee therefore thought that a general scheme for home owners should be reserved as a counter-measure if the government was not successful in securing more liberal arrangements for trade in ships. However, the committee did support a modest temporary provision for financing home owners on a selective basis (see section 4.4.3). As we shall see in chapter 5 the credit scheme introduced by the government turned out to be massive, permanent, and relatively unselective.

Fiscal arrangements. Shipbuilders, along with other manufacturers, had been given an export rebate on indirect taxes since 1964. The proportion of rebate fixed for shipbuilding was 2% and shipbuilders received a refund of this amount on their sales to overseas customers. The committee felt that the demand met by British shipbuilders was a world demand, irrespective of whether the order was placed by a home or an overseas owners. The usual distinction between home and export trade was that the home market was protected by the costs of transport, by tariffs, or by various other special circumstances such as the perishable nature of the product or the use of special standards. Shipbuilding did not enjoy such protection. It was therefore unfair to apply to the shipbuilding industry, on the basis of a false analogy with other industries, a distinction in the tax treatment of home and overseas sales which the market conditions did not justify. Other shipbuilding countries relieved shipbuilding of indirect taxes on all orders. This recommendation was incorporated by the government in the Finance Act 1966, and the rebate was continued after the general export rebate was withdrawn from other industries. This rebate to shipbuilders was aptly called 'Shipbuilders' Relief'.

Shipbuilding Industry Board. The Geddes Committee believed that if the shipbuilding industry was to become and remain competitive it must quickly reorganise its structure, change its outlook, and improve its reputation.

The proposed government financial assistance would be conditional on the efforts made by both sides of the industry towards full competitiveness. The administration of these proposals would, therefore, need an independent body in close contact with the industry and its problems. The report recommended the setting up of a Shipbuilding Industry Board (SIB) which would:

1. initiate, assist and stimulate necessary action within the industry;
2. administer and control government financial assistance;
3. give the government informed advice on the current prospects of British firms and the effect of assistance given to foreign shipbuilders.

The Board would be composed of independent members, since representatives of the industry should not take part in decisions affecting assistance to individual firms. Initially the government should appoint three people to the SIB: an independent chairman with experience of the problems of large industrial organisations, a trade unionist from another industry, and a technologist or engineer not closely connected with shipbuilding. There should be provision for two more members if that seemed desirable. The chairman's appointment should be full-time, or nearly full-time, so that he could take an active part in advising and guiding the industry. The Board would need advice from independent consultants on the financial, organisational, management and production aspects of schemes of reorganisation and on industrial relations. The SIB would control government assistance to the industry for a five-year period. It should report annually to the government on its activities and on progress towards increased competitiveness. The report also recommended the setting up of a Shipbuilding and Ship-repairing Council to replace the Shipbuilding Advisory Committee.

It is not surprising that a committee set up specifically to recommend action to help shipbuilding should recommend a special agency to deal with the industry. What is disturbing is that the committee

did not consider the possibility that restructuring might best be carried out by some more general body for industry such as the IRC.⁴⁰ This is not necessarily to say that the IRC would have been a better agency, but given the desperate state of some shipbuilding firms there would have been the advantage that the IRC could have intervened in the industry before the SIB was able to do so. Further advantages in shipbuilding coming under a more general body would have been greater flexibility in allocation of funds, presumably greater expertise among staff and the possibility of cross-fertilisation of ideas from other industries. A disadvantage would have been the possibility that the special problems of shipbuilding might be neglected. In the event, as will become clear in the next chapter (section 5.3.3), problems could cut across sectoral boundaries in a way the SIB was unable to cope with. The IRC had to be called in after all to help with the difficulties of Cammell Laird.

Government financial assistance. The report recommended that various types of government financial assistance should be given to assist and accelerate the reorganisation of the industry:

1. Consultant services. Grants, up to a ceiling of £150,000, to encourage firms in the industry to examine possible grouping schemes and the reorganisation, including yard specialisation, which might be expected to follow.

2. Grouping loans. Loans to facilitate desirable groupings and accelerate the rationalisation of resources. Three types were proposed: (a) To assist groups to buy at valuation an interest in a participating company which would otherwise hold up the integration of that company within the group. Ceiling of £5m.

40. Interview with a member of the Geddes Committee. 18 April 1974.

(b) To provide additional working capital (i) through a Realisation Company to be set up by the SIB, which would purchase assets surplus to requirements as a result of grouping and dispose of them in due course; (ii) where a group was short of working capital and the shortage could not be satisfactorily remedied in any other way. Ceiling of £12½m.

(c) To help finance the rearrangement of facilities and new and economically sound capital projects. Ceiling of £15m.

The SIB should be empowered not to charge interest on loans in the first three years, the decisions on remissions of interest to be made annually. The Realisation Company's capital would be provided by the SIB free of interest.

3. Grants for transitional losses. Grants, up to a ceiling of £5m, to meet part of the extra costs arising during the period of reorganisation when resources would not be fully utilised, plant and overheads temporarily duplicated and costs would be incurred in running down existing facilities and setting up new ones. Within the ceiling the SIB would be empowered to meet:

- (a) 75% of such transitional losses incurred before mid 1968.
- (b) 50% of such losses incurred between 1968 and mid 1969.
- (c) 25% of such losses incurred between mid 1969 and the end of 1970.

4. Shipbuilding credits. The SIB should be empowered to grant to shipbuilders credit facilities for orders by UK owners on the same terms as those available for export orders. The facilities would only be available for the period from mid 1967 to the end of 1970 and would be subject to a ceiling of £30m with a limit of £10m in any period of twelve months. The aim was to assure as far as possible that the groups should have a steady order book during the transitional period.

5. Loans to companies outside groups. Loans similar to those in 2(c) above, and subject to a ceiling of £2m out of the £15m for loans in 2(c),

to apply where grouping was impracticable but where firms should be able to make a substantial contribution to the competitiveness of the industry.

6. Main engines. Loans and grants to assist the rationalisation of engine building where this necessitated additional working capital and the acquisition of plant for works in which engine building was to be concentrated. Loans up to a ceiling of £1½m out of the £12½m for purposes as in 2(b) above; loans up to a ceiling of £2m out of the £15m for purposes as in 2(c) above; grants up to a ceiling of £1m out of the £5m in 3 above.

The Geddes Committee considered that these incentives covered all the assistance that the industry needed to encourage it to form groups on a competitive basis as quickly as practicable. The report pointed out that the figures were proposed ceilings, not expenditure. Actual amounts could not be determined until groups and their consultants had prepared their projects and these had been assessed by the SIB. The proposed figures assumed four large groupings - if these groupings did not come about, the expenditure should be proportionately less. In addition to meeting the industry's real financial needs the moratoria on interest payments, which could only be paid yearly, and the transitional grants would enable the SIB to ensure that the loans were used for the agreed purposes and that all other necessary steps were being taken to make the group competitive. The section of the report on government financial assistance concluded with the words: 'to quote the figures without noting either that they are maxima or the timetable proposed and the stringent conditions to be met, would be a misinterpretation of what we propose'.⁴¹

41. Geddes Report, p.150.

The report's recommendation about grants for transitional losses reflected the committee's concern about the speed with which the industry should be reorganised. However, its proposal did pose some practical difficulties. It would be almost impossible to disentangle costs arising from reorganisation from, say, losses due to continuing inefficiency. If, on the other hand, grants were made on the basis of overall losses this would benefit an inefficient firm which incurred few transitional costs at the expense of a profit-making firm with high transitional costs. The report's laudable intention that such grants should only be available to firms making good progress at reorganising themselves also depended on the assumption that the government would accept a situation where the firms most likely to collapse are those least likely to be assisted.

4.4.4 Timetable for action

The report outlined what the state of the British shipbuilding industry might be by 1972/5 based on three different hypotheses:⁴²

1. Decline. Gradual evolution on recent trend, with no real gain in competitiveness, a decline to 7½% of the world market or less and an output of little more than 1m gross tons per annum on average.

'Sporadic appeals for Government aid to ease the decline'. Employment on new building falling to about 30,000.

2. Holding on. Some change in attitudes, practices and deployment of resources so as to hold about 10% of the market and output about 1¼m gross tons a year. 'Neither a healthy nor a secure industry'. Employment possibly held at 50,000 but productivity throwing up surpluses in some trades.

42. Geddes Report, p.152.

3. Growth. After two to three years of major reorganisation of firms' facilities and practices along the lines of the report's recommendations market share recovering to 12½% or more with output around 2½m gross tons a year. Employment slightly increased above 50,000, providing more security.

The committee itself believed that, 'providing the rate of British inflation which affects costs so quickly and acutely, does not exceed that in competing countries', the shipbuilding industry could grow on the scale described in 3 above. In the event, by 1972/5 the British industry was in the state described as 'Decline', though government subsidy kept the size of the workforce above the 30,000 envisaged.

The timing of the reorganisation of the industry was considered important, because the need was urgent, because action by all those who were involved in the industry had to be fitted together, and because government assistance to the industry should, at each stage, follow commitments and evidence of real progress by the industry itself. The report therefore included a recommended timetable for implementing its proposals; this is shown here as table 4.3 to provide a checklist for comparison with subsequent developments.

Table 4.3 Geddes Timetable

March-June 1966

Both management and workers should discuss our proposals at local levels and advise their own central organisations.

These organisations should give the Government their views with any reservations.

Meanwhile the Government should take any action open to it on the rebate of certain indirect taxation.

July 1966

The Government should announce its conclusions in the light of the response by both sides of the shipbuilding industry and by the steel-makers.

If our proposals are accepted, the Government should take steps to set up the Shipbuilding Industry Board (SIB) on a non-statutory basis.

August-December 1966

Any necessary legislative processes should be set in train.

Firms should consider their future in relation to groupings and obtain SIB approval for any necessary consultant work.

Unions should make their plans for strengthening their staff, organisation, and shop steward training.

The Shipbuilding and Shiprepairing Council should be established.

January-June 1967

Consultants' studies should proceed and their reports be considered by firms and the SIB.

The SIB should familiarise itself with the industry's problems and hold any necessary discussions with both sides.

The SIB should set up a Realisation Company.

March-December 1967

Firms' detailed proposals for grouping and rationalisation should be considered by the SIB and, where they measure up to the standards we recommend, the necessary loans should be made.

The / ...

Table 4.3 (Continued)

The SIB should keep in touch with developments in industrial relations and take them into account in assessing the prospects of grouping and reorganisation schemes.

mid-1967-end 1970

The SIB should consider annually whether moratoria should be given on any loans already advanced and whether credits should be extended for particular orders.

The SIB should make recommendations as to the arrangements for winding up its own business and as to the development of the Shipbuilding and Shiprepairing Council.

Source: Geddes Report, pp. 154-5.

4.4.5 Reactions to the report

The Geddes Report was published towards the end of the General Election campaign in 1966. This timing appears to have been entirely fortuitous. When the committee had started work in February 1965 Mr. Mason had asked the committee to report in twelve months at the latest. The committee submitted this report to the President of the Board of Trade on 24 February 1966, and it was published exactly a month later, within a week of the General Election. This was a fairly short time for a minister to sit on a report, but the report itself had urged speedy publication. The government had to lay a dummy White Paper before the House of Commons on 4 March to enable publication of the report as a White Paper after the dissolution of Parliament the following Thursday.

On the day before the Geddes Report was published Mr. Jay, the President of the Board of Trade, announced the government's acceptance of the report as a basis for considering the future of the industry.⁴³ The government would be prepared to play its part, broadly along the lines indicated in the report, if those in the industry were prepared to play theirs. Since the report came out during the election campaign it was naturally raised at campaign press conferences. At the Labour Party news conference on 24 March Mr. Callaghan, the Chancellor of the Exchequer, declined to put a figure on the sum likely to be needed. When it was put to him that direct aid might amount to £30m Mr. Callaghan replied, 'I am not assuming it will all be Government money. Sometimes I feel like hanging a sign outside my office saying: "This is the British Treasury and not a national soup kitchen for indigent industrialists".'⁴⁴ When Parliament met again following the

43. HC Deb., 9 August 1966, col. 1400.

44. Times, 25 March 1966.

election Mr. Mason announced that the government accepted the recommendation in the report that those concerned in the industry should be allowed until the end of June to consider the report as a whole and to give the government their views before final decisions were taken about the form of any government assistance.⁴⁵

The report was welcomed by the Shipbuilding Conference; Mr. Michael Scott, president of the Conference, said that it was a 'great report' and that shipbuilders would 'work like blazes' to try to keep to the proposed timetable.⁴⁶ The executive board of the Shipbuilding Conference accepted the report in principle on 29 March.

The unions were more ambivalent in their attitude to the Report. The Scottish TUC agreed unanimously on 20th April that the report was only a preliminary to public ownership.⁴⁷ However, in May a meeting of national and district representatives of shipbuilding employers and unions at York welcomed the report and agreed to work together towards its implementation.⁴⁸ They agreed to form immediately a joint consultative committee in anticipation of the setting up of the SIB and the Shipbuilding and Shiprepairing Council. This committee would investigate the causes of delays resulting in missed delivery dates and take action to prevent similar delays in future. Less than a week after this meeting at York, the Boilermakers Society conference at Morecambe passed unanimously an executive council resolution asking the conference to reaffirm its determination to do everything possible to have the shipbuilding industry brought under public ownership.⁴⁹ Yet at the CSEU conference the following month Mr. Dan McGarvie, president of the

45. HC Deb., 28 April 1966, written answers, col. 46.

46. Times, 25 March 1966.

47. Times, 21 April 1966.

48. Times, 13 May 1966.

49. Times, 19 May 1966.

Boilermakers Society, warned the delegates against damaging the prospects of fulfilling the report by constantly calling for public ownership.⁵⁰

The key to this apparent contradiction lay in Mr. McGarvie's remark that if the proposed reorganisation of main shipyards into five groupings failed after financial assistance had been given by the government, it would be much simpler than to nationalise the five groupings!

4.5 THE SHIPBUILDING INDUSTRY ACT

4.5.1 Statement of government policy

Following the publication of the report Mr. Chapman, who had been secretary to the Geddes Committee and who now reverted full-time to his post as head of the Shipbuilding Branch at the Board of Trade, was involved in receiving representations on the report from the same people as he had met when they were giving evidence to the Geddes Committee.⁵¹ This personal contact obviously helped, though with the publication of the report it became a matter not just for his branch but for the department as a whole.

By the end of June 1966 the Board of Trade had received memoranda setting out the positions of the Shipbuilding Conference, the Shipbuilding Employers' Federation and the National Association of Marine Engine Builders, and of the CSEU. In a statement to the House of Commons on 9 August 1966 Mr. Jay announced that as a result of these memoranda and knowledge of what had already been achieved, such as a recent demarcation agreement, he was satisfied that the industry had accepted the basic recommendations in the report and that both sides were prepared to cooperate in giving the industry a fresh start.⁵² He could therefore confirm the government's decision to play its part also in the

50. Times, 24 June 1966.

51. Interview with Mr. V.I. Chapman, 7 November 1973.

52. HC Deb., 9 August 1966, cols. 1400-6.

reorganisation of the industry.

The government had already taken steps in the Finance Bill to provide by order for shipbuilders to be relieved of certain indirect taxes for home orders and would make this order come into force on 12 September. Legislation would be introduced in the current session to establish a Shipbuilding Industry Board. The government had in mind ceiling commitments for government financial assistance of the kind proposed by the Geddes Committee, but the precise financial arrangements to be included in the legislation needed further study. The actual expenditure would depend mainly on the industry itself, and before giving financial support to new groupings the government would want to be satisfied that all possible steps would be taken to ensure competitive efficiency and viability.

Mr. Jay announced that Mr. William Swallow, until recently the chairman and managing director of Vauxhall Motors, had agreed to accept the chairmanship of the Shipbuilding Industry Board when it was set up. The names of two other members would be announced in the near future. They would be able to hold discussions with firms and unions in advance of legislation, as recommended in the Geddes Report. The government agreed with the report's recommendation on the desirability of concentrating orders for frigates and destroyers in a few yards specialising in sophisticated vessels. The detailed arrangements for making this change would be worked out with the SIB in the light of the reorganisation of the industry as a whole.

4.5.2 Differences between the Bill and the Geddes Report

The Geddes Committee had recommended that any legislation following its report should be set in train by November 1966, but the Shipbuilding Industry Bill was not published until February 1967. The delay was due

to difficulties in devising a system of credit for home owners. The Geddes Report had recommended that the SIB should be empowered to grant to shipbuilders credit facilities for orders by UK owners on the same terms as those available for export credit, up to a maximum of £30m. However, the government was concerned about the rapidly increasing percentage of orders from British shipowners going abroad: in 1966 this was 70%, compared with 57% in 1965 and 38% in 1964, the year of the Shipbuilding Credit Act.⁵³ Accordingly, the government decided that there was a strong case for a credit scheme for orders by British shipowners going beyond that recommended by the Geddes Committee, but closely associated with measures for the reorganisation of the shipbuilding industry. The Bill therefore included a provision for the Minister of Technology, on the advice of the SIB, to guarantee in appropriate cases loans to shipowners for the construction of ships up to a total of £200m at any one time. The Chancellor of the Exchequer arranged for discussions with the London clearing and Scottish banks with a view to their agreeing to apply in such cases the same fixed lending rate, then 5½%, which they applied to medium-term export credits under ECGD guarantees.

There were a number of other differences between the Geddes Report and the Bill of varying degrees of significance. Clause 3 of the Bill enabled the SIB, with the approval of the minister, to make grants not exceeding £5m in total to shipbuilding firms taking part in grouping schemes (and to main engine manufacturing firms) for expenses incurred by them in reorganising their resources and for their inability to make the best use of these resources during the process of reorganisation.

53. The reasons given in this section for the differences between the Bill and the Geddes Report are based largely on Mr. Benn's Second Reading speech (HC Deb., 9 March 1967, cols. 1773-88).

The Geddes Report had recommended the same figure, but for 'transitional losses', and had suggested a declining percentage to be granted each year up to 1970. However, as was suggested above, there would have been a number of difficulties in carrying out the Geddes proposal in practice (see section 4.4.3).

Under clause 4, the bill provided for the same total to be made available in loans (£32.5m) as had been recommended by the Geddes Report, but gave greater flexibility to the SIB by leaving it to determine the amount it wished to devote to various purposes, rather than specifying the amounts to be allocated to each purpose in detail, as had been done in the Geddes Report.

The most politically controversial change from the Geddes recommendations was contained in clause 6, which enabled the SIB, with the approval of the minister, to acquire shares in a company instead of, or in addition to, making a loan, and it also enabled loans to be discharged by the issue of shares. In either case, the shareholding would count against the limit on loans of £32.5m. This equity provision was included because the government felt that where substantial sums of public money were put into an industry it ought to be open to the agency that put them there to take a share in the ensuing profitability of the enterprise which received it. The SIB might also have in mind the desirability of an equity to give itself a continuing say in the management of an enterprise at a time when questions of management reorganisation were of crucial importance. In the event, this clause was only used once, to buy shares in Upper Clyde Shipbuilders, where the question of sharing in profitability never arose and where the existence of a shareholding did not even guarantee effective monitoring.⁵⁴

54. See section 5.3.2 and Hogwood, 1976b.

The arrangements for remission of interest were affected by a technical change. Instead of providing for a remission of interest due on loans for the first three years, the Bill provided for the payment of interest to be financed by grants, so that the exact cost could be known and identified.

The timing of the Geddes proposals was affected by a change concerning consultancy fees. The same amount as recommended by Geddes (£150,000) was to be made available in grants for consultancy fees, but where Geddes recommended that the last date of application should be 30 November 1966 and that reports should be completed by 30 June 1967, the Bill provided that no grant should be made after 31 March 1968. This exemplified the slippage which was already developing compared to the Geddes timetable (see table 4.3). The Bill also provided for the dissolution of the SIB at the end of 1970, unless its life was extended by an order made by the minister for a period of *not more than a year*.

The final difference concerned the Bill's coverage in terms of the number of yards affected. The Bill was concerned with all yards building vessels of 100 gross tons or more, of which there were about sixty, rather than the twenty-six yards building vessels of 5,000 gross tons or more on which the Geddes Committee had reported. According to Mr. Benn, the Geddes Committee had concentrated on the larger yards (as it was required to do so by its terms of reference) 'as a matter of convenience'. The effect of this difference in coverage was that the SIB became responsible for a large number of smaller yards whose problems were, for the most part, different from those of the large yards, though their exclusion would have led to claims of unfair treatment from the smaller yards.

4.5.3 The passage of the Bill through Parliament

Apart from Clause 6 on SIB shareholdings, the Opposition were in agreement with the general principles of the Bill, so its passage through Parliament was not even marked by those set-piece confrontations which the government wins as a result of its automatic majority. (Always assuming that the government does have a working majority, of course. The Labour government had considerable problems in 1976 with its bill to nationalise shipbuilding; see section 7.6). Nor was the introduction of the Bill preceded by active Parliamentary discussion of the principles of the Geddes Report. The second reading of the Bill on 9 March 1967 was the first time that the House of Commons had debated the shipbuilding industry since the Geddes Report a year earlier. A large part of the second reading debate was concerned with the Geddes Report and developments since its publication, rather than just with the contents of the Bill itself.⁵⁵

The government's case was put by Mr. Benn, who as Minister of Technology had taken over responsibility for shipbuilding in November 1966 at a crucial stage in the preparation of the legislation.⁵⁶ Opposition spokesmen generally welcomed the Bill, though they were unhappy about the minister's power to give the SIB directions of a general character and the provision to allow the SIB to take up equity holdings. This bipartisan approach was reflected in the fact that the Bill was read a second time without a division.

The Bill was little altered in its passage through its committee and report stages, as table 4.4 illustrates.⁵⁷ It is entirely

55. HC Deb., 9 March 1967, cols. 1773-888.

56. For a discussion of changes in departmental responsibility, see section 9.2.

57. HC Deb., Standing Committee D (Shipbuilding Industry Bill), 1st to 5th Sittings, 6, 11, 13, 18 and 20 April 1967, cols. 1-250; HC Deb., 11 May 1967, cols. 1785-1815.

Table 4.4 Shipbuilding Industry Bill: summary of amendments in committee and report stages

Type of amendment:		Substantive			Probing	Technical		Clarificatory	Totals		
Moved by:		Govt	Govt back- bencher	Opp.	Opp.	Govt	Opp.	Govt	Govt	Govt back- bencher	Opp.
Moved	C ¹	1	1	16	2	3	4	3	7	1	22
	R ¹	1	0	2	0	3	0	3	7	0	2
Withdrawn	C	0	0	8	2	0	4	0	0	0	14
	R	0	0	2	0	0	0	0	0	0	2
Negatived	C	0	1	8	0	0	0	0	0	1	8
	R	0	0	0	0	0	0	0	0	0	0
Responsive ²	C	1	-	-	-	0	-	0	1	-	-
	R	0	-	-	-	0	-	3	3	-	-
Agreed to	C	1	0	0	0	3	0	3	7	0	0
	R	1	0	0	0	3	0	3	7	0	0

Notes: 1. C = committee stage; R = report stage.

2. 'Responsive' refers to amendments moved and agreed to as a result of undertakings given in committee or to clarify points of concern to the Opposition.

appropriate to consider the committee and report stages together, since for this Bill they clearly went over the same ground. Indeed, the most significant difference was that there were fewer MPs present during the report stage than there had been during the committee stage.⁵⁸ Given that most of the committee members were from towns with large shipyards anyway, this implies a distinct lack of concern over government expenditure of this sort. Needless to say, when things started to go wrong with the policy set out in the Bill, concern was manifested by the Public Accounts Committee - after the event.

The Opposition cooperated with the government in grouping amendments to speed the Bill's passage through the committee, but received little in return by way of government acceptance of Opposition amendments. The government did introduce some amendments at report stage to clear up points raised by the Opposition, but did not yield on any of the substantive amendments suggested by Opposition MPs. As table 4.4 shows, the sole effect which non-ministerial MPs had on the Bill was that the government put down a number of clarificatory amendments which did not affect the substance of the Bill, together with one minor substantive amendment. This conforms with the general pattern for government legislation found by Griffith in his study of legislation in three sessions - virtually all amendments agreed to were moved by the government.⁵⁹ Few of the amendments moved by non-ministerial MPs were agreed to, and the most significant impact of non-ministerial MPs was an indirect one through the government responding to points made in committee.

After a trouble-free third reading and passage through the House of Lords, the Bill received the Royal Assent on 28 June 1967. In no sense

58. HC Deb., 11 May 1967, col. 1815.

59. Griffith, 1974, especially chapter 6.

could Parliament be said to have had a significant impact on the legislation.

4.6 A GOOD WAY TO MAKE POLICY?

In section 4.4.2 a number of criticisms were made of the approach adopted by the Geddes Report. These should not imply criticism of the calibre of the membership of the committee or the quality of its report. Indeed, as Edmund Dell has argued, 'On the contrary it was in many ways a sensible report'.⁶⁰ Criticisms about the committee's lack of political realism and the narrowness of its focus are more properly directed at the process by which an ad hoc committee is set up to look at a specific problem, almost inevitably recommends special government assistance to deal with that problem, and is then disbanded.⁶¹ The narrowness of focus helps to rule out the possibility that the problems of any given industry will be identified as more general problems, or of recommendations which would have had an impact more widespread than on the specific industry. For example, the committee's terms of reference effectively precluded the recommendation of the devaluation of sterling to improve UK shipbuilding's competitiveness, since this was not a measure specific to shipbuilding. Similarly, the committee was not asked to examine the social consequences of its proposals.

However, the last thing the Geddes Committee should be blamed for is for suggesting that government support alone could solve the problems of the industry. Indeed, if some of its prior conditions had been followed, the government would not have paid out any assistance at all.

60. Dell, 1973, p.170.

61. A more general critique of the role of inquiries in shipbuilding policy is undertaken in section 8.3. Heclo and Wildarsky, 1974, p.90 comment on the role of inquiries in recommending more money for favoured causes.

For example, the report wanted the government to make its acceptance of the report's recommendations conditional on steelmakers providing a discount to shipbuilders. This the steelmakers declined to do, and it would have been politically naive to have expected the government to refuse to give assistance to yards which would otherwise close simply because a concessionary price for steel was not introduced. This illustrates a more general criticism that can be made of the report. The implementation of those of its recommendations addressed to groups other than the government was highly contingent, yet the report presented the proposals as an all-or-nothing package. Its reasons for doing so were understandable - it wanted to confront the industry with the need for action - but by failing to list the options open to the government in the all-too-likely event of only partial implementation of the report by unions and management, the committee effectively provided the government with as little guidance about what to do in such a situation as if it had never been set up.

Setting up an ad hoc committee is arguably a wasteful way to obtain information about an industry. Given the need for an independent committee, the majority of members are likely to know little about the industry when they start work. As the chairman of one such committee remarked 'the paradox is that, just as we were reaching some understanding of the problems of the industry, we finished our Report and the Committee disbanded. The expertise, so painstakingly and expensively acquired, is unlikely ever to be used again'.⁶¹ There are two main dangers here. The first is that since the inquiry committee will not itself be responsible for carrying out its own recommendations it may not be fully

61. Lord Plowden, chairman of the committee of inquiry into the aircraft industry 1964-5, in HL Deb., 1 March 1966, cols. 618-19.

aware of the practical difficulties of implementing them; thus we can echo Pressman and Wildavsky's view, formulated in another context, that 'implementation should not be divorced from policy. There is no point in having good policies if they cannot be carried out'.⁶² The second danger, indeed certainty, is that such reports 'can only too easily become outdated without anyone noticing because it would require a new report to establish the fact that the emperor no longer had any clothes'.⁶³

Perhaps the most disturbing feature about how policy developed from inquiry committee to legislation is that setting up a committee seems to have been regarded as a way of avoiding the awkward problem of deciding just how much it was worth to save a particular industry. Sir Richard Clarke, Permanent Secretary at the Ministry of Technology, volunteered the shipbuilding industry as an example of this problem to the Commons Select Committee on Procedure:

'Take as an example the Shipbuilding Industry Board programme for the reconstruction of the shipbuilding industry. Thirty-two million pounds has been voted by Parliament for that purpose. How one measures the benefit ensuing from that I do not know. I would not know how to start that calculation. My answer would be that without it the industry might have died'.⁶⁴

Sir Richard rightly pointed out that even retrospective calculation of the benefit would be difficult because the situation which existed would have to be compared with what the situation would have been if one had not done the thing in question. Even given the difficulty of assessing the

62. Pressman and Wildavsky, 1973, p.143. See also section 1.5.

63. Dell, 1973, p.166.

64. HC 410, Session 1968-9, Q.236; see also Garrett, 1972, p.27. The figure of £32m (actually £32.5m) was that for loans. There was an additional sum, initially £5m, available in grants.

benefits to be obtained, it might nevertheless have been expected that the department would have analysed what the cost of preventing the industry from dying would be. However, in reply to a question asking how one decided on the figure of £32m, Sir Richard said:

'Parliament decides on £32 million! In that case, there was the Geddes Report on shipbuilding. The Geddes Committee considered what might be needed for this purpose. They must have thought in terms that something was needed on the Tyne, something on the Wear and something on the Clyde. They then put figures of some kind to that, thinking, "This is about what the bill will be". It was then put to Government. Government submitted it to Parliament and Parliament approved it'.⁶⁵

Given the evidence in section 4.5.3 about how little Parliament contributed to the Shipbuilding Industry Bill, the remark that Parliament decided on the sum to be spent can be regarded as a joke in bad taste. More seriously, the above quotation reveals how much the department charged with regenerating British industry was operating in the dark. Lest it be thought that shipbuilding was in this respect a special case it is worth quoting further from Sir Richard's evidence: 'What we are trying to do is to develop and improve the economic and technological position of private industry by various means of assistance of one kind or another. It is very difficult to put a cost tag on that'.⁶⁶

Clearly, the formulation of shipbuilding policy in 1964-7 did not take the synoptic approach embodied in the 'rationality' model discussed in section 1.5. In its neglect of important alternative policies and of important possible consequences, decision making during this period

65. HC 410, Session 1968-9, Q.238.

66. HC 410, Session 1968-9, Q.239.

conformed much more clearly with the Lindblom incremental model. The amount of money committed to helping shipbuilding was not chosen by assessing its opportunity cost compared to alternative policies or uses, but it did meet the Lindblom criterion of a 'good' policy in that various analysts agreed on the policy. However, this method of decision making was not arrived at as a result of a conscious choice by the government that this was the best decision-making approach to adopt. Rather, an anti-synoptic approach was built in from the start by defining the problem as a shipbuilding one and referring the problem to an independent committee dealing only with shipbuilding.

It very quickly became clear that the sums in the Shipbuilding Industry Act determined in the way described by Sir Richard Clarke were not adequate to ensure the survival of some shipbuilding firms. The Industrial Expansion Act 1968 raised the £5m available in grants to £20m, while at the same time removing the requirement that the recipient should be taking part in a grouping scheme. Similarly, the £200m ceiling on guarantees for credits to shipowners, itself a considerable increase on the Geddes recommendation of £30m, was raised by legislation to £400m, and later to £700m. However, the success or otherwise of a scheme cannot be measured simply by whether or not the original global limits proved to be adequate. What is required is a detailed assessment of how the money was spent and the impact that it had, and this assessment is undertaken in the next chapter.

 CHAPTER 5

 FROM LEGISLATION TO REALITY

5.1 THE SITUATION FACING THE SIB

The situation facing the SIB as it started work in 1967 was markedly different from that when the Geddes Committee had been set up, as table 5.1 shows. In 1965 UK shipbuilding had recovered substantially from its poor 1964 showing, though as we would expect from the diagnosis outlined in section 3.1 this recovery took place two years after the recovery in world output. However, despite the continuing growth in world output, UK production in 1966 and 1967 failed to maintain its absolute level of 1965. This was reflected in the continuing long-run decline in the UK share of world output. The problem facing the SIB in 1967 is therefore best described not as helping the industry out of a trough but as trying to avert a continuing decline.

 Table 5.1 UK and world completions of merchant ships, 1959-67.

Year	Completions (000gwt)		UK share of world tonnage (%)
	UK	World	
1959	1,383	8,697	15.9
1960	1,298	8,382	15.5
1961	1,382	8,058	17.2
1962	1,016	8,182	12.4
1963	1,096	9,028	12.1
1964	808	9,724	8.3
1965	1,282	11,763	10.9
1966	1,074	14,105	7.6
1967	1,188	15,157	7.8

Source: Booz-Allen Report (1973), exhibit 30, p.91.

The appointment of the chairman of the SIB, Mr. (later Sir) William Swallow, had been announced on 9 August 1966, immediately before the summer recess, thus enabling the President of the Board of Trade to make a statement to the House about progress on the Geddes Report. Nothing further was done for some weeks, with there being no other Board members, no staff and no office accommodation.¹ However, Mr. Swallow himself was soon involved in consultations about individual shipyards. Further members of the Board were appointed in the Autumn. Mr. A.E.Hepper, who had been an executive director of Thomas Tilling since 1963 and who six months previously had been seconded to the Department of Economic Affairs for two years as an industrial adviser, was appointed as a part-time member of the Board on 4 November 1966. Mr. J. Gormley, then General Secretary of the North Western Area of the National Union of Mineworkers, was appointed on 4 November 1966.² The Director of the SIB, Mr. Barry Barker, who had been secretary of the Metal Box Co. of India, was not appointed until November 1967. One problem posed by the limited life of the SIB was the difficulty in recruiting staff of sufficient calibre.³ The allocation of responsibilities within the staff is shown in fig. 5.1, which also gives an idea of the range of activities carried out by the SIB. The SIB staff were also responsible for servicing the Shipbuilding and Shiprepairing Council (SBSRC).

Before the passage of the Shipbuilding Industry Act in June 1967,

1. Interview with Sir William Swallow. 10 April 1974.
2. Mr. Hepper resigned from the SIB in September 1967 to become chairman designate of UCS and on 12 October 1967 Mr.A.S.Ashton, finance director of Esso Petroleum, and Mr. H.W.Morris, deputy chairman of ICI Fibres, were appointed to the SIB. Mr. Morris resigned from the SIB at the end of May 1971 because of the pressure of other business commitments, but otherwise the membership of the SIB remained the same until its dissolution at the end of 1971.
3. Interview with Sir William Swallow. 10 April 1974.

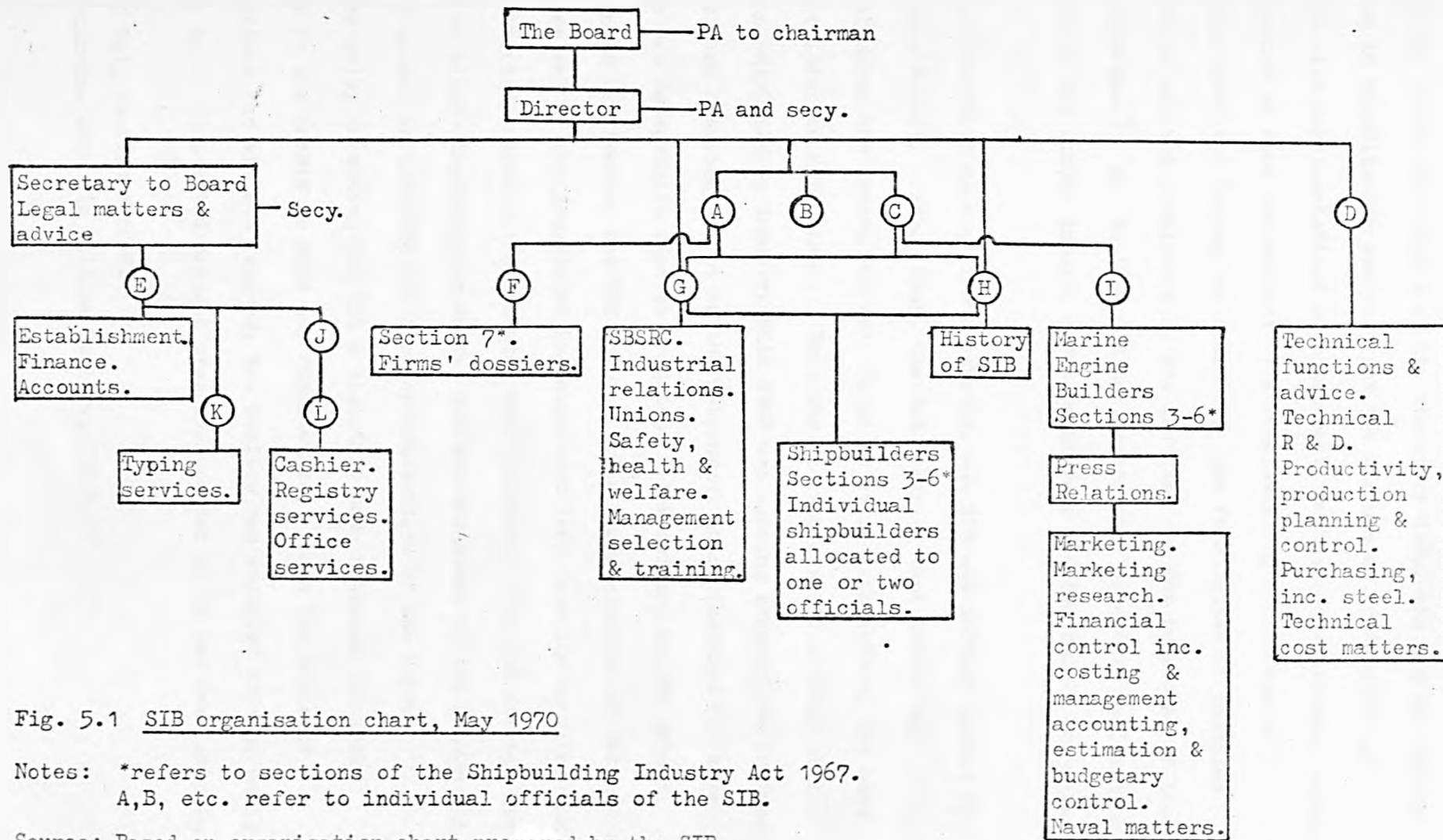


Fig. 5.1 SIB organisation chart, May 1970

Notes: *refers to sections of the Shipbuilding Industry Act 1967.
A,B, etc. refer to individual officials of the SIB.

Source: Based on organisation chart prepared by the SIB.

and for the first nine months of its statutory life, the SIB was mainly involved in establishing contacts and the discussion of fundamental problems with representatives of management, unions and employees; visits to shipyards at home and abroad; the commissioning of studies of particular problems facing the industry; the formulation of policies designed to correct imbalances in the industry and the beginning of their implementation.⁴ Mr. Swallow did not regard this as simply duplicating the work of the Geddes Report, since he already had the report to guide him.⁵

For the first year of its existence, the SIB was closely guided by the Geddes Report. After that, the SIB realised that Geddes had underestimated the demand for very large ships and, therefore, the need for facilities to build them. This underestimate still existed at the time the Shipbuilding Industry Bill 1967 was passing through the Commons. The SIB made representations to the government about the need for more finance not necessarily tied to grouping. The ceiling on the amount which could be given by the SIB in grants for reorganisation of resources was increased by the Industrial Expansion Act 1968 from £5m to £20m, and the restrictions concerning grouping were relaxed. The SIB did not see itself as simply implementing Geddes and was not asked by the government about progress in carrying out the recommendations of the report.

The delay in making the SIB a statutory body hindered its work, because it was unable to make any commitments. When the stage of applications for aid was reached, Mr. Swallow had expected that he would be sent fully documented project proposals rather as he had been when he

4. HC 361, Session 1968-9.

5. Interview with Sir William Swallow. 10 April 1974.

was with Vauxhall Motors; instead, he and Mr. Barker often had to play an active part themselves in drawing up the proposals.⁶ The SIB sought outside advice when it felt that its members own experience was not exactly of the type required in a particular case; for example, in the assessment of asset values or financial figures which needed to be worked out by an expert accountant.⁷

The SIB was by no means completely autonomous in the way it dispensed grants and loans. Because government funds were used the Treasury required the SIB to draw up proposed annual budgets. This was obviously very difficult, considering that expenditure depended largely on the timing of applications, over which the SIB had no direct control. The SIB therefore had to take an active role in encouraging the submission of projects for its consideration. The Treasury did sometimes send back recommendations with queries, which sometimes meant that the SIB in turn had to go back to the firm concerned; this caused delays in the making of payments. The SIB staff, especially the Director, worked closely with civil servants at the Ministry of Technology before recommendations were formally submitted, so that the civil servants would be able to tell the minister what was involved when he received the SIB's recommendation. The various stages involved in the processing of applications are shown in fig. 5.2, and the way this procedure operated in practice can be seen particularly in the next section on groupings.

5.2 POST-GEDDES GROUPINGS

5.2.1 Introduction

As we saw in section 4.4.2, the Geddes Committee did not carry out an

6. Interview with Sir William Swallow. 10 April 1974.
7. HC 362, Session 1968-9, Q.2224.

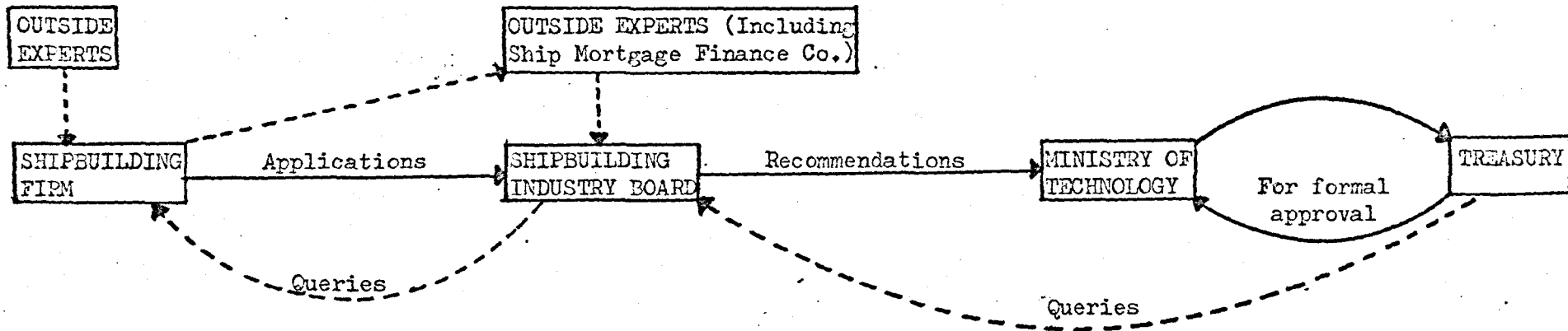


Fig 5.2 Processing of applications for SIB aid

Note: Dashed lines indicate stages which did not occur with every application.

economic analysis of the benefits to be gained from the grouping of shipyards, and whether particular groupings would produce greater benefits than others. Although it was not spelt out in the report, the Geddes Committee appeared to have assumed that the proposed SIB would carry out an examination of what the best groupings would be.⁸ However, grants for consultancy fees under the Shipbuilding Industry Act 1967 were for the study of any proposed grouping scheme, rather than whether a grouping scheme was desirable at all. No retrospective analysis was carried out by the government of the economic effects of any of the groupings compared with leaving the yards to continue separately, or alternative groupings, or other uses to which the aid given could have been put, either within the shipbuilding industry or elsewhere.⁹ In the absence of economic analysis the SIB and the government encouraged groupings to include all shipyards in each estuary, even where the cost of obtaining the inclusion of some yards was arguably more than the contribution those yards could make to the group. The reason was quite obvious: outside the groupings some yards would have been unable to survive. Anyone who approaches the following accounts of each grouping on the assumption that government aid in the late 1960s was concerned with lubricating the transition to the optimum structure of the shipbuilding industry to meet foreign competition is likely to be very bewildered.

5.2.2. Upper Clyde

In 1966 merger talks took place amongst two different sets of yards on the Upper Clyde - Stephen, Connell, Yarrow and Barclay Curle on the one hand, and Fairfields and John Brown on the other. However, the merger

8. Interview with a member of the Geddes Committee. 18 April 1974.
9. Though the Department of Industry has now undertaken a cost-effectiveness study of aid given to the UCS liquidator in 1971-3; see section 8.6.

which did take place resulted not from these talks but from a SIB working party. Before the SIB working party was set up it was announced early in 1967 that the Barclay Curle yard on the upper Clyde, a subsidiary of Swan Hunter, could no longer be maintained, and was available for sale. Fairfields, which had itself been formed with government, private and trade union support the previous year,¹⁰ became interested in the yard at the end of February 1967; they felt that they could make profitable use of the berths at Barclay Curle. However, the uncertainty about Fairfields' own future following the Geddes Report made it impossible for Fairfields to raise the necessary finance privately. Iain Stewart, the chairman of Fairfields, asked the SIB to provide a loan, until Fairfields' own position in a new grouping was cleared up. Then, if Fairfields was to continue as a separate yard, it would raise the cash privately to purchase the yard. If an upper Clyde group was formed it could officially borrow money from SIB to absorb the yard. However, Mr. Swallow made it clear that this type of loan was outside the terms of reference of the SIB.¹¹

Before the SIB working party on the upper Clyde was set up William Swallow had informal talks with the chairmen of the five upper Clyde yards - Stephen, Connell, Yarrow, John Brown and Fairfields. Following this he wrote to each chairman on 8 March 1967 suggesting discussions on who might be asked to serve as full-time chairman of the proposed new group; it had already been agreed that the chairman should be found outside the shipbuilding companies on the Clyde. The Fairfields board was convinced that a merger of equals would be ineffective, and that the experience of continental yards showed that the only way to achieve

10. See section 4.3.

11. Paulden and Hawkins, 1969, p.162.

success in mergers was for one yard to take in the others. So strongly did Iain Stewart believe this that in his reply to William Swallow on 28 March he offered to resign as chairman of Fairfields (since he himself was a controversial figure) so that Fairfields could be used as a basis for taking over the upper Clyde!¹² However, the SIB's view was that the best chance of forming a group lay in approaching the problem from the outside and setting up a new company entirely separate from the existing ones. This was in marked contrast to the approach adopted in the formation of a Tyne-Tees group (see section 5.2.4).

At the end of March it was officially announced that a working party had been set up to make proposals for the merger of the Stephen, Connell, Yarrow, Fairfield and Brown yards. The working party was formed with the cooperation of the SIB, the first occasion on which the SIB had been involved in this way. The chairman of the working party was Mr. Anthony Hepper, a member of the SIB, and the other members were a merchant banker and a management consultant. Although the working party's terms of reference related primarily to the upper Clyde, it was asked to bear in mind the possibility of a grouping being extended to cover the whole of the river.

While the working party carried out its investigations, a number of those involved in Fairfields tried to appeal over its head directly to the Minister of Technology, Mr. Benn, who refused to become involved.¹³ Oliver Blanford, the managing director of Fairfields tried unsuccessfully to get a hearing with him; John Rankin, the Labour MP for Govan failed to persuade him to take action; and Andrew Cunningham, one of the directors of Fairfields and a trade union official complained to

12. Extracts from the exchange of correspondence are included in Paulden and Hawkins, 1969, pp.166-9.

13. Paulden and Hawkins, 1969, p.154.

Mr. Benn in writing 'that Labour Ministers are extremely difficult to talk to'. Iain Stewart himself later came to regret that he had tried to keep the government at arm's length since it led to a lack of interest in the continuation of the Fairfields approach to running a shipyard (see section 4.3.4).

Towards the end of July 1967, Mr. Hepper asked the SIB to consider his position on the Board following the news that he had been invited to be head of a possible upper Clyde grouping. However, Mr. Hepper agreed to turn down the invitation at the request of the SIB. Leaks about the working party's report in August caused concern among the workers of the yards.¹⁴ It was believed that though the proposals would not involve the immediate closure of any of the yards, they saw the running down over about two years of the shipbuilding activities at the Stephen yard and recommended that from then on this yard should be concentrated on building and repair and engineering work. The number of hourly paid workers at the five yards would be reduced by about 3,000, though the reduction would be gradual.

In August 1967 four of the yards - Fairfields, Brown, Stephen and Connell - announced that they would be forming a new upper Clyde group. Yarrow was to decide within a week whether to enter the group. A steering committee was set up to supervise the merger. The grouping arrangement was designed to allow for other shipbuilders on the Clyde, such as Scott and Lithgow, to join the group. Yarrow did decide to be included, and agreed with Connell that there should be only one group for the whole of the Clyde. It soon emerged that the price of Yarrow's inclusion in the merger was that it was to retain its name, its own board of directors and all main departmental functions; the company

14. Times, 11 August 1967.

was to operate as a subsidiary of the new group. By maintaining its separate identity in this way Yarrow was able to withdraw from UCS in early 1971, which would have been impossible for any of the other yards (see section 6.2.2).

The first members of the board of the new group, Upper Clyde Shipbuilders (UCS) were named at the end of August. Mr. Hepper was to be chairman and was to resign from the SIB. Until the new company was formed he was to continue as chairman of the steering committee supervising the merger. The change of attitude by the SIB towards Mr. Hepper's appointment was due to the failure of the component companies to agree on an alternative chairman.

The five yards announced at the end of October that they had decided not to buy the Clydeholme yard of Barclay Curle, contrary to the recommendations of the working party. If the Clydeholme yard had been included, it would have meant that the new group would have had to assimilate six, rather than five, different sets of working practices.¹⁵

Although by the beginning of December 1967 the final details of the Upper Clyde merger had not been completed, the SIB had agreed to the broad outlines of the proposed group and was prepared in principle to give loans and grants when it was established. The boards of the five yards had reached agreement on terms for merging their shipbuilding interests, subject to agreement with the SIB of terms for financial assistance, the signing of an employment charter, and obtaining the approval of the shareholders. It is worth noting that agreement with the SIB on terms for financial assistance was a condition of the merger taking place at all. The employment charter had been approved after discussion with the fifteen trade unions involved, who recommended it

15. Barclay Curle ceased building ships and concentrated on repair work; in May 1974 it was bought by Yarrow, which by then was again an independent company.

to their shop stewards and members. The charter was described as being based on existing agreements covering methods of working; the difficult questions of wage differentials and mobility within constituent shipyards were left to be settled with the individual trade unions. This was in marked contrast to Fairfields (Glasgow) Ltd., which only got under way after hundreds of men were made redundant and the workers had given undertakings to cooperate in improving productivity (see section 4.3.3).

The financial details of the merger were announced in January 1968. The company was to have an issued capital of £4m, but there was also to be a one-for-four rights issue raising £1m working capital, which would take the issued equity up to £5m. The equity was to be divided as follows: John Brown 30%, Connell 5% and up to £400,000 in cash, Fairfields 35% and £350,000 in cash, Stephen 10% and Yarrow 20% and £1m cash. (Fairfields' shareholding was reduced to 32.5% when rights issues were not taken up by some Fairfields shareholders and were bought by John Brown). The merger did not include the non-shipbuilding interests of John Brown, Stephen and Yarrow. UCS would have only a 51% share of Yarrow Shipbuilders, which explains the relatively low share of the equity held by Yarrow. As a result of its 50% shareholding in Fairfields, the government acquired 17½% of the equity of UCS.

The cash payments in addition to shareholdings for three of the companies were partly in consideration for the outcome of future contracts. The upper Clyde working party had recommended that the companies should be put together on the basis of the outcome of current contracts being the responsibility of the predecessor shareholders.¹⁶ However, when the deal had to be put together by Barings, advised by Deloittes and Attwood Wallace, Deloittes said that it would not be

16. HC 347-II, Session 1971-2, Q.2163.

possible to do this because:

1. there were different accounting procedures in the various yards;
2. when the group was formed it would set up integrated accounting procedures;
3. the outcome of the contracts was likely to take as much as two years and it would be very difficult to allocate financial responsibility at that time;
4. even if it had been possible to carry out the working party's recommendation, in one case there were no shareholders who could be asked to pay for any money owing if contracts lost money.

The merchant banking advice on the formation of UCS turned out to have grossly underestimated the amount of working capital required and the amount needed to cover losses on inherited contracts. Mr. Hepper's later view was that if UCS had not had to carry these initial financial burdens it would have stood a much better chance.¹⁷

The SIB view was that the trading prospects of most of the companies at the time of the merger were very dismal in the long run.¹⁸ Cash payments had been made to three of these companies in addition to UCS shares to satisfy reluctant shareholders who did not want to exchange an immediate earning prospect, however small, for something that might not give a cash return until the longer term. The chairman of the SIB later agreed with an MP on the Public Accounts Committee, that in the case of one company 'its assets were nearly nil'.¹⁹ If the company had been left to go into liquidation it could have been picked up more cheaply, 'But if you proceed like that you would probably be left with one or two yards on the upper Clyde'. Waiting to pick up the assets more cheaply

17. HC 347-II, Session 1971-2, Q.2164, 2166.
 18. HC 362, Session 1968-9, Q.2227-9, 2234.
 19. HC 362, Session 1968-9, Q.2280-9.

from the liquidator would have caused a delay in forming the group - 'Unless we could get a group formed reasonably quickly, the advantages of such a group were declining all the time'. Clearly the distribution of shareholdings and additional cash to the component yards of UCS is better understood in terms of what was needed to secure voluntary compliance in the immediate formation of a group containing all the yards rather than in terms of what the relative assets and liabilities of each yard were worth.

UCS applied to the SIB for loans under section 4 of the Shipbuilding Industry Act 1967 and said that it proposed to make application for grants under section 3.²⁰ The SIB was informed of the plans UCS had for the future management of the group, including the closure of the Stephen yard, and was supplied with a forecast of expected future profits and losses. The SIB also consulted its own financial advisors on the future prospects of the group. As a result of this information and advice the SIB decided that the scheme should be supported and sought the approval of the Ministry of Technology in general terms to make loans and grants to UCS. In its submission to the Ministry the SIB commented that 'if the five companies were left to themselves it was clear that, except for the one company which had been operating profitably [Yarrow] and possibly Fairfields (Glasgow) Ltd., they would sooner or later cease to exist'.

Following discussions between the SIB, the Ministry and the Treasury, it was decided, with the approval of the Minister, that loans would be made to UCS, subject to a limit of £7m. A loan agreement giving effect to these proposals was signed in February 1968, the month UCS started operating. It provided for loans of £1.5m for the

20. HC 361, Session 1967-8, p.21.

acquisition of shares by UCS and £2m for the purposes of the undertaking generally; both of these sums were made available when the merger took place. Given the sums which had to be paid to predecessor companies (£1.75m in cash) it can be seen that much of the SIB aid at the time of the formation of UCS was simply to enable the group to be formed and in some cases effectively constituted a free gift to previous shareholders. Relatively little went towards providing better facilities, more working capital or the costs inherent in merging five organisations into one. Under the loan agreement UCS could also obtain further loans of up to £2m if it submitted details of its future plans and budgets to the satisfaction of the SIB (only about £1.2m of this was ever drawn). The SIB also undertook to ^{consider} applications for further loans of grants in the light of future circumstances.

In view of the subsequent government involvement in UCS it is obviously important to set out the government's role at this formative stage of UCS's brief life. Sir Richard Clarke, Permanent Secretary at the Ministry of Technology, told the Public Accounts Committee in February 1969 that the government played no part in the negotiations at all:

'The Government Director of Fairfields played a very active part in the interests of Fairfields shareholders as a whole, but it was not a government matter at all. It was a matter between these five companies to work out the terms for the merger. Then when they came to an agreement to set up UCS the question arose whether the Government, as 50 per cent shareholder in Fairfields, would agree like the other Fairfields shareholders and did, in fact, agree'.²¹

21. HC 362, Session 1968-9, Q.2157-9.

Of course, as Sir Richard himself remarked, the government 'had interest' in the merger going through because it believed, on SIB advice, that it was desirable for the rationalisation of the shipbuilding industry that the group should be created. Although the SIB had had some misgivings about the commercial viability of UCS and had mentioned these in submitting the merger scheme to the Minister for approval, the Ministry did not make any further investigation of the merger proposals or the potential viability of UCS.²² The Ministry considered that the SIB had had very expert advice, both from a firm of merchant bankers and from a firm of accountants; the SIB quoted this advice to the Ministry in submitting UCS's application for assistance.

The government clearly tried to stand back from the merger and leave it to the companies and the SIB. However, as we shall see in section 5.3.2, only a year after the formation of UCS the government began to be increasingly involved in the affairs of the company. Mr. Hepper's view following the collapse of UCS was that the government should have taken a much closer interest in the financial structure of the company if it had been known that the government was going to have the involvement which it ultimately did.²³

There is also the question of whether this was an appropriate stance to take when the government was itself a 50% shareholder in Fairfields, which it had helped to set up. In standing aside from the negotiations leading up to the formation of UCS, the government refused to become involved even when asked to do so by those connected with the company which it half-owned. More than this, the government failed to establish whether or not the Fairfields 'experiment' had been successful.

22. HC 447, Session 1971-2, Q.1279-80.
 23. HC 347-II, Session 1971-2, Q.2165.

An 'experiment' is 'something done to test a theory, or to discover something unknown'.²⁴ One of the difficulties in assessing the achievements of Fairfields (Glasgow) Ltd. is to determine how far it was intended to be an experiment in those terms, and if so what were the theories it was testing. The government's reason for supporting Fairfields was, at least in part, to keep the yard open until it was seen how it would fit into any post-Geddes grouping, but Iain Stewart clearly did regard the enterprise as an experiment or 'proving ground' and set out what he saw as its objectives on a number of occasions.

The task of establishing what did happen is complicated by the undoubted antagonism between Fairfields and the other upper Clyde yards. Mr. Anthony Hepper, chairman of UCS throughout its existence, was in no doubt that Fairfields had been a commercial failure. He claimed that existing and promised Fairfields wage rates had pushed up rates for the group as a whole and that promised increases were not tied to improvements in productivity.²⁵ He also claimed that Fairfields was 'littered with almost an impossible mixture of different types of ships which there were not the facilities either technically or physically to complete'.²⁶

Iain Stewart, on the other hand, thought that the Fairfields experiment had been justified by results.²⁷ He pointed out that independent consultants had forecast a profit of £300,000 for Fairfields for 1968. Fairfields were paying higher wages because the men were giving a performance which justified it, he claimed; other yards had no means of measuring performance. Replying to the allegation that Fairfields had taken on ships at uneconomic prices, Iain Stewart argued that the contracts

24. Chambers Twentieth Century Dictionary.

25. HC 347-II, Session 1971-2, Q.2125.

26. HC 347-II, Session 1971-2, Q.2124-30.

27. HC 347-II, Session 1971-2, Q.2256-7.

had turned out to be more expensive under the UCS management. Sir Iain was himself very critical of the way UCS was run. When UCS was formed, Sir Iain was appointed as deputy chairman. However, it became clear to him after two months of UCS board meetings that the report of the SIB working party, particularly its recommendation to cut the size of the workforce, was not going to be implemented, so he resigned.²⁸ He also felt that the UCS board were not going to pursue any of the Fairfields' management practices and policies.²⁹

As we saw above, the SIB in its submission to the Ministry of Technology considered that Fairfields 'possibly' could have survived on its own. The government view was that much of the difference between the profits forecast by Fairfields and the loss shown in accounts prepared under UCS was due to different methods of accounting.³⁰ A large proportion of the difference was due to differences in treatment of losses for work in hand. The Permanent Secretary at the Ministry of Technology also drew attention to the cost Fairfields had to incur for production engineering and people concerned with job evaluation and other aspects of the productivity plan.

Any statement about whether Fairfields would have been profitable on its own therefore has to be heavily qualified by the assumptions involved. However, perhaps more important than whether Fairfields would have made an accounting profit in 1968, was whether Fairfields succeeded in its attempt to improve performance by introducing management techniques which had proved successful elsewhere and by changing the behaviour of the workforce - a workforce which from the start had been cut

28. HC 347-II, Session 1971-2, Q.2240-2.

29. For Mr. Hepper's rejoinder to Iain Stewart's views see HC 347-II, appendix 18, p.726.

30. HC 362, session 1968-9, Q.2124. The figures were given by Sir Richard Clarke, Permanent Secretary at the Ministry of Technology, to the Public Accounts Committee; he had to be corrected twice by Mr. V.I. Chapman, an Assistant Secretary dealing with shipbuilding, who, in turn, later had to submit a note correcting a figure he had given.

down to the size management thought desirable. These changes in behaviour were to be brought about by, amongst other things, consultation of the workers' representatives and designing a better payments scheme. Although Fairfields was not completely strike-free, there was a clear change from the atmosphere of mutual suspicion which characterised industrial relations in the shipbuilding industry. This change of attitudes would not itself have been sufficient to secure competitiveness, but experience elsewhere in the industry suggests that it is a pre-requisite. The evidence suggests that the benefit from some of the techniques introduced at Fairfields was just beginning to be felt when Fairfields was merged into UCS.³¹ However, the experimental aspects of Fairfields management were effectively abandoned by UCS.

Almost by accident, it seemed, the government had stumbled on an opportunity to test whether new management techniques could be applied to shipbuilding and whether attitudes in industry could be changed. However, not only did the government fail to establish any evaluation procedure to scrutinise the experiment as it went along, but it actually squashed a request from Fairfields to carry out a retrospective analysis. In order to establish the record within government quarters, Iain Stewart approached Aubrey Jones, chairman of the National Board for Prices and Incomes, before Fairfields was merged into UCS and asked him:

'If the Government have made an investment in Fairfields as a national proving ground and have been party to this merger, which we agree with if the plan is implemented, do you not think that it is up to you to wade into the situation and make a thorough unbiased examination of what achievements have been made within this national proving ground?'³²

31. See Alexander and Jenkins, 1970.

32. HC 347-II, Session 1971-2, Q.2256 (Sir Iain Stewart).

Aubrey Jones agreed, and said that he would write to the Department of Economic Affairs (DEA) where Peter Shore was in charge at the time, and ask for a team to go in and make such an examination. Iain Stewart thought that this would put Fairfields' achievements and failures on record in a way that nothing else could do - the independent consultant's report commissioned by Fairfields had been criticised by many. However, the DEA turned down the suggestion - according to Iain Stewart because it thought that an investigation would be an embarrassment to UCS.³³

The UCS merger also, illustrated how elastic are the concepts 'commercial considerations' and 'potentially viable'. The SIB clearly regarded the formation of a five-yard group from companies as going concerns as of over-riding importance: 'If we left out just one or two yards on probably just cold-blooded commercial considerations, we would not then have got some of the productivity improvement we will get by having them all within one working unit'.³⁴ When asked whether 'cold-blooded commercial considerations would have suggested leaving one or two of them out', Sir William Swallow replied, 'Yes, but against that we had the tangible benefit of the entire group working as one group and getting some benefits from the production point of view'.³⁵ These replies reflect some confusion over what are 'commercial' considerations - apparently such 'cold-blooded commercial considerations' were to be contrasted with the SIB's objective, which was 'to see eventually an industry which is a profitable and practical commercial industry'.³⁶

When asked whether social considerations also influenced the SIB's attitude to UCS's application for a loan, Sir William told the Public Accounts Committee in 1969:

33. Peter Shore's letter to Aubrey Jones is published in full in Paulden and Hawkins, 1969, pp.178-9.
34. HC 362, Session 1968-9, Q.2297 (Sir William Swallow). Emphasis added.
35. HC 362, Session 1968-9, Q.2298.
36. HC 362, Session 1968-9, Q.2220 (Sir William Swallow). Emphasis added.

'We were primarily influenced by commercial considerations, but I suppose that we were slightly influenced by the fact that the Upper Clyde is one of the major shipbuilding areas of the country and we felt that we should probably lean over backwards in order to give it a chance to get on its feet and make it a very strong group'.³⁷

If anything, Mr. Hepper took an even gloomier view of UCS's commercial visibility at its formation:

'When I reported as Chairman of the working party to the Vice-Chairman and to the Government and SIB at the time I made it very clear that in my view the formation of the Upper Clyde Group could not possibly be considered as a financial venture, that is to say one in which you put your money with a hope of getting it out within a reasonable period of time'.³⁸

However, Mr. Hepper felt able to confirm that there was no difference of opinion between UCS and the SIB on the role played by social considerations.³⁹ To compound the confusion of terminology, both Sir William Swallow and Sir Richard Clarke were clear in their evidence to the Public Accounts Committee that in considering applications for assistance the SIB was guided by strictly commercial principles.⁴⁰

The apparent contradictions can be resolved if we bear in mind that any firm is 'potentially competitive' - provided it is given enough money. What the SIB was trying to do was not to subsidise production costs but to give assistance which would enable the firm to make changes, after which it would be able to compete without further aid. However, as we saw above, little of the money given to UCS at its inception was to

37. HC 362, Session 1968-9, Q.2240. Emphasis added.

38. HC 347-II, Session 1971-2, Q.2132.

39. HC 347-II, Session 1971-2, Q.2175-7.

40. HC 362, Session 1968-9, para. 185.

enable it to make these necessary changes - the money was used to enable the group to be formed in the first place. As we shall see later in the chapter UCS repeatedly came back to the SIB for further assistance.

5.2.3 Lower Clyde

Although the SIB was pleased at the progress that had been made towards the formation of an upper Clyde group by the autumn of 1967, it really favoured a single group for the whole of the river.⁴¹ However, in September 1967, Scott and Lithgow on the lower Clyde presented to the SIB proposals for a merger of their shipbuilding and engineering interests. The upper Clyde yards would have preferred a single Clyde group, but the lower Clyde yards were opposed. This opposition was due to their fears that they would be dragged down by the upper Clyde yards, which they felt should prove their viability before the lower Clyde yards were asked to join a larger group. Those who wanted a single group for the whole river argued that it would be possible to rationalise capital expenditure between the upper and lower reaches of the Clyde; that the lower Clyde yards could be developed to build the largest tankers - this would enable the Clyde to build a complete range of merchant ships; and that there would be savings through the sharing of common marketing and other services. These potential benefits do not appear to have been quantified - as for the argument for grouping in general. The working party on the upper Clyde grouping thought that the groupings on the upper and lower Clyde were complementary and recommended that the lower Clyde grouping should become an independent subsidiary, with the upper Clyde having a majority shareholding.

Had the SIB insisted on its wishes it could have brought considerable

41. Times, 11 September 1967.

pressure to bear by refusing to give the lower Clyde group grants or loans or to recommend credit guarantees for ships to be built in its yards. The government could also have brought pressure by taking Scott off the list of yards asked to tender for national orders, and did appear to be considering this in August 1968.⁴² In doing so, the government could have argued that it was carrying out the Geddes Report's recommendation that the number of yards asked to tender for naval orders should be reduced. Mr. Benn, on his visits to the Clyde in 1969, made it clear that he strongly favoured a single group for the Clyde.⁴³ Neither the SIB nor the government did take the actions open to them, although they allowed them to remain as a threat while they sought to persuade. In the last resort, however, they did not see their roles as involving coercion. Undoubtedly, had such coercion been brought to bear, the Opposition would have mounted a vigorous campaign against it.

Following the presentation of merger proposals by Scott and Lithgow to the SIB a study was carried out for a lower Clyde grouping. Although it was a considerable time before legal formalities were completed, 'in the meantime the two companies have stated that they are acting in all respects as if the merger were legally complete'.⁴⁴ The grouping finally took place on 31 December 1969. Scott Lithgow also includes the Greenock Dockyard, which was included in the Geddes Report. The new group had extensive plans for new facilities for which they needed financial assistance.⁴⁵ The SIB supported the group's application and after Ministry approval an agreement provided for loans up to £2.3m and grants up to £1.4m. It is important to note that this financial assistance was for the provision of new facilities and not,

42. Times, 14 August 1968. Confirmed in interview with Mr. J.E. Boyd of Lithgow Holdings. 28 June 1976.
43. S&SR, vol. 113, 21 February 1969, p. 246, and 28 March 1969, p. 416.
44. HC 326, Session 1968-9.
45. HC 84, Session 1970-1; HC 554, Session 1970-1.

as was the case with much of the help given to UCS, for buying shares or providing working capital. A further feature of this merger was the long time it took to be finalised. This meant that the group was able to present a plan for reorganisation of facilities at the time of the formal merger, but after the two yards had already settled down to working together. In other words, what took place was a genuine merger rather than simply a grouping.

5.2.4 Tyne-Tees

A month after the publication of the Geddes Report, it was announced that merger talks were going on between Swan Hunter on the Tyne and Smith's Dock on the Tees. The idea of a merger was pre-Geddes and born of commercial requirements, but the Geddes recommendations helped in obtaining union approval. Completion of the talks was delayed by the difficulty of drawing up terms for the two companies, which had both had losses in 1965; however, a return to profitability was expected in 1966. Once this merger had been completed, the next step was to a Geddes regional group. Discussions had already been held with other Tyne and Tees firms, including Hawthorn Leslie, Vickers (who had a yard on the Tyne as well as at Barrow-in-Furness) and John Redhead.

On June 1967, few firms on the River Tyne announced their intention of merging into a new joint company. Sir John Hunter, who was to be chairman of the new group, pointed out that it would be the largest shipbuilding organisation in Britain. Although a considerable amount of detail had still to be worked out, it was hoped that the new company would come into operation the following January. The companies involved were those who had been involved in discussions the previous year - Swan Hunter, Vickers, Hawthorn Leslie and John Redhead. The merger would take in only the companies' shipbuilding interests and would

exclude Vickers shipbuilding interests outside the Tyne. The group would have a theoretical capacity of over 400,000 tons a year and a labour force of 12,000 compared with the Geddes recommendation that a shipbuilding group should aim to achieve an output of 400,000 to 500,000 gross tons per year and should employ a total work force of 8,000 to 10,000 workers. Swan Hunter would have the majority interest in the new company, though the amount of the holdings of the participant companies still had to be decided.

The Times, in a Business News leader in June 1967, stated that in May the SIB had suggested that a working party should be set up to examine the prospects of a grouping of Tyne yards with Furness Shipbuilding on the Tees - a loss-making company, which was part of Sears Holdings.⁴⁶ The Times suggested that this had spurred the Tyne yards into an early decision on amalgamation, which would avoid the need for a working party.

The coordinating committee set up by the four Tyne yards envisaged the possibility of a new shipyard on the Tyne since there was no purpose-built yard for modern ships. A new yard would not necessarily mean more jobs.

In September 1967, Swan Hunter offered to acquire John Redhead, whose status as a private company raised difficulties over its participation in a consortium; this bid from Swan Hunter was considered to be the logical way to solve these difficulties. In October 1967 it was announced that Swan Hunter (Shipbuilders) would be used as the joint company for Tyne group. The company's name was to be changed to Swan Hunter and Tyne Shipbuilders. The authorised capital of the company would be increased from 5 million to 15 million ordinary £1 shares and the Tyne shipbuilding interests of Vickers, Hawthorn Leslie and

46. Times, 18 June 1967.

Redheads would be acquired by the company for shareholdings in it. The acquisition of Redheads would include their ship repairing and marine engineering interests (contrary to the original merger proposals). The issued capital of the joint company (expected to be £9m to £10m) would be held in the following proportions: Swan Hunter (including Redheads) 64%, Vickers 18%, Hawthorn Leslie 18%. The board would include representatives from the companies whose yards made up the group. The company was due to start operations on 1 January 1968, but, in the meantime, progress had been made in setting up a centralised design and estimating organisation, and the first tender to be submitted on behalf of the joint company resulted in an order from the Cunard Line.

The final form of the Swan Hunter and Tyne group was complicated by the predicament of Furness Shipbuilding's Haverton Hill yard on the Tees, which, it was announced early in 1968, would close down, putting 3,000 men out of work. The SIB was keen to save the yard, and the obvious candidate to do this was Swan Hunter. In September 1968 Swan Hunter and Furness Shipbuilding issued a joint statement confirming that talks were taking place about the future of the yard. The firms were 'in constant touch with the Ministry of Technology and the Shipbuilding Industry Board'.⁴⁷ Agreement was reached that Swan Hunter would take over the yard and that it would be incorporated in the group at the end of 1968. The SIB, with the approval of the Ministry of Technology, agreed to make available a grant of £1m to Swan Hunter to make the takeover possible.

Sir John Hunter later told the House of Commons Expenditure Committee that 'carrying through this merging and amalgamating is an expensive

47. Times, 10 September 1968.

process.⁴⁸ When five or six yards had to be merged and all of them had different accounting systems this was not a very easy thing to do. On the Tyne they had to get five yards to work together and then a year later bring in a yard on the Tees and fit them all into one management structure. At least two of the yards on the Tyne were on the point of closing down when the merger took place. 'With some assistance and urging from Sir William Swallow' the group was forced to take orders at existing world prices which subsequently proved to be far too low, in order to keep these yards in being and to carry on the new organisation.

Two points of comparison can be made with UCS. First the structure of the Swan Hunter group was brought about by agreed takeovers rather than a merger of 'equals'; this would help to make it easier to introduce a uniform management structure. Secondly, it is clear that the troubles that UCS had in devising a uniform accounting system and in absorbing loss-making yards were not unique. Swan Hunter proved better able to cope with these problems, but not without transitional losses:

1968	1969	1970	1971
£217,000 profit.	£3,449,000 loss	£5,604,000 loss	£549,000 profit

Source: Booz-Allen Report, p.176.

5.2.5 Wear

On the Wear there already existed a grouping of a number of yards: Sir James Laing and Company, John L. Thompson and Sons, and William Doxford and Sons, were all part of the Doxford and Sunderland Shipbuilding and Engineering Company. In April 1967 it

48. HC 347-I, Session 1971-2, Q.918.

was announced that a working party was to be set up with the cooperation of the SIB to make proposals for the merger of three shipbuilding companies on the Wear - Austin and Pickersgill, Bartram and Sons and Doxford and Sunderland. The chairman of the working party was Derek Palmer, the Government director on the Fairfield's board.

The report of the working party was in the hands of company chairmen by the beginning of September 1967. No details of the report were released, but The Times reported that it included financial proposals for a merger, in contrast to the Upper Clyde, where, though a merger had by that time been agreed in principle, financial proposals were still being worked out.⁴⁹

However, no action was taken on the report, apparently because it did not envisage any expansion of production and proposed the closure of Bartram and the Doxford yard of the Doxford and Sunderland company. In July 1968, the SIB told the three companies that because of the lack of progress in reorganising their production facilities the SIB would no longer recommend the granting of credit guarantees under Section 7 of the Shipbuilding Industry Act 1967 for ships to be built in their yards. The embargo affected five ships immediately, and if it had been continued in the long run would have made it virtually impossible for these yards to win orders from British owners. The companies made joint representations to the Ministry of Technology about the SIB's action.

Following talks between the companies and the SIB, the SIB recommended that credit facilities be restored and the three companies were able to announce orders totalling £15m. The SIB's action does seem to have had an effect, since in August Bartram and Austin and Pickersgill announced that they were to merge. Although the SIB had

49. Times, 2 September 1967.

been pressing for a three-company merger, Doxford and Sunderland was not to be included in the proposed group. Earlier in the year Doxford and Sunderland, easily the largest of the three companies, had proposed merger terms which amounted to a takeover of the other two companies, and these had been rejected. In the terms for the two-company merger, Austin and Pickersgill was to acquire the whole of the share capital of Bartram. This merger was carried out without any financial assistance from the SIB.

As with the Clyde, the SIB had a definite view about the size of the grouping it wanted on the Wear, and in this case it went considerably further in exercising pressure by carrying out the threat to withhold recommendations for credit guarantees. By using this pressure, the SIB secured a grouping smaller than they wished, and did not press further for a single group when it became clear that some of the companies concerned opposed this. This episode is not without a certain irony: Austin and Pickersgill became one of the most consistently profitable shipbuilders in the late 1960s and 1970s and they did so by specialising in a standard ship, the SD14. This was one of the benefits which large groups were supposed to make possible!

In fact, before the Geddes Report, Austin and Pickersgill had rebuilt their yard. Because there was a derelict shipyard adjacent, they had been able to raze the shipyard to the ground, and build a completely new yard, rather than 'bits stuck on here and there' as had happened in other yards without a similar opportunity.⁵⁰ According to Ken Douglas, who was with Austin and Pickersgill before going on to UCS, 'the only thing Austin and Pickersgills did wrong was to do the modernisation too early because they could have got the £3½ millions

50. HC 347-I, Session 1971-2, Q.917.

from Geddes instead of earning it themselves'.

5.2.6 Other changes to the structure of the shipbuilding industry

No further large groupings took place under SIB sponsorship. The idea of an 'Irish Sea Grouping' consisting of Harland and Wolff in Belfast, Vickers at Barrow-in-Furness and Cammell Laird at Birkenhead was considered but came to nothing. The Industrial Expansion Act 1968 as well as providing an extra £15m in grants for shipbuilding also removed the requirement that applicant shipbuilders must have been involved in a grouping scheme; thus Harland and Wolff was able to obtain finance for its 'building dock' without grouping.

However, there were a number of smaller-scale groupings, many of them involving yards which, because they could only build ships of less than 5,000 tons, had been too small to fall within the terms of reference of the Geddes Committee. For example, Thornycroft of Southampton, which was covered by the Geddes Report, merged with Vosper of Portsmouth, which was not. On the East Coast of Scotland, Caledon of Dundee merged with Robb of Leith to form the Robb Caledon Group. The SIB agreed to make a loan for capital expenditure. The Robb Caledon Group later took over the Burntisland yard following its closure, and used it for prefabrication. The SIB made a loan of £150,000 to the Drypool Engineering and Dry Dock Company of Hull to assist it with the acquisition in 1969 of Cochrane and Sons of Selby and to provide working capital for the two companies. In its report for the year ending 31 March 1969, the SIB said that it would welcome other yards following this example.⁵¹ Drypool went into receivership in 1975, and the receiver, Mr. Robert Smith (who was also the UCS

51. HC 326, Session 1968-9.

liquidator) described the group as then structured as having 'no commercial logic behind it and the only hope of survival for the separate companies is to be unshackled from the group'.⁵²

Apart from the Barclay Curle yard mentioned in section 5.2.2 on the upper Clyde, and the Burntisland yard mentioned above, one other yard included in the Geddes Report was closed without being included in a grouping - the Blyth shipyard in Northumberland, which closed in August 1966, only five months after the publication of the Geddes Report.

The various changes which took place in the structure of the UK shipbuilding industry through groupings and closures are illustrated in figure 1.6.

5.2.7 The nature of the groupings

The closure of the Blyth, Burntisland and Barclay Curle yards, together with the poor state of other yards which survived only by being incorporated into groups, indicates that the Geddes Report and the subsequent government assistance were too late by several years. The Geddes Report had envisaged the groupings as an opportunity for new management structures and new attitudes as well as new physical investment. In practice, some of the groupings became massive rescue operations with the SIB desperately trying to include yards whose survival on their own was at least doubtful. On the upper Clyde the SIB sponsored a grouping composed of yards, the majority of which it recognised as being incapable of surviving on their own. The upper Clyde case showed more clearly than most that the idea of promoting competitiveness was sufficiently elastic to include what were

52. Times, 11 October 1975.

effectively social and political considerations. The attitude of the SIB is understandable enough: it was regarded as being the saviour of the shipbuilding industry, and if it had allowed the majority of shipyards in one of the main shipbuilding areas of the country to go into liquidation its credibility would have been reduced.

The SIB had no general view on the type of structure for groupings - merger of equals into a new company, takeovers etc. Others did think it mattered, for example Fairfields on the form of the upper Clyde grouping. There was no economic analysis (as opposed to financial analysis of share divisions etc.) of alternative courses of action, and in any case the money for examination of groupings was not for the SIB's direct use but for payment to shipyards to employ consultants. The SIB's approach was to seek to secure the compliance of the participants in the formation of the groups. Apart from the brief withdrawal of guarantee recommendations from the Wear yards and the implied, but unexercised, threat to the lower Clyde, the SIB sought compliance by persuasion and the provision of incentives. Thus the SIB paid Swan Hunter to take over Furness and gave funds to UCS to pay off owners of yards reluctant to part with control, even though it was doubtful whether the net assets of one yard had any value at all. On the labour side the SIB accepted an employment charter described as being based on existing practices and which retained the existing size of the workforce although the working party on the group had proposed large-scale redundancies. This reluctance to use coercion, although this merely involved the withholding of benefits, to achieve the SIB's responsibility for making the industry competitive reflects a much more general reluctance to impose solutions without full consent from those affected which characterised

government 'intervention' in economic and industrial policy throughout the 1960s. This approach has been described by Jack Hayward:

'In Britain, the myth rather than the reality of gradualist political development, in which piecemeal change is almost frictionlessly brought about under the aegis rather than through agency of a passive government, has been a potent cultural constraint inhibiting any unprecedented response to a crisis. The capacity to use a domestic, peacetime crisis for the purpose of shedding the shackles of incrementalism and imparting a new impetus to an old industrial society is consequently absent'.⁵³

Both the Geddes Report and the SIB appear to have underestimated the problems associated with grouping. The Geddes Report realised that there might be problems arising from the use of physical resources when a number of yards came together, and had proposed grants to cope with these 'transitional losses'. However, the administrative problems, such as the integration of five different accounting systems, do not seem to have been realised in advance. This had the consequence that just when new demands were being placed on management, their management systems were least able to cope.

Some of the groupings envisaged by Geddes were delayed (or never took place in the form envisaged by the report) because 1967 was a bad year for orders (and profits) and firms were reluctant to accept merger terms which they did not consider reflected the full value of their shares. These delays shortened the time for remission of interest on SIB loans, which was available only until the end of 1970. Although the Geddes Report had been quite clear that grouping was only

53. Hayward, 1975, p.9.

a means towards a more competitive industry, as soon as legislation defined grouping as a condition for the receipt of help, grouping tended to become an end in itself.⁵⁴ Firms looked into grouping prospects in order to get grants for which they would otherwise have been ineligible, and some of the smaller groupings which took place bore little resemblance to those envisaged by Geddes. This situation was altered by the Industrial Expansion Act 1968, which allowed grants to be given when there was no grouping.

The government, although it had clear views on the size of groups, deliberately stood back from the details of the grouping schemes - mergers were regarded as 'private' matters even when the government half-owned one of the yards involved. This would have seemed an appropriate stance if the government had set up an agency to 'deal with the problems of the industry', but in fact the SIB was not allowed by its terms of reference to continue rescuing a yard which had little prospect of success without continuing injections of aid. When this situation arose the government was inevitably less well informed about the industry and the yards concerned than if it had been directly responsible itself for dispensing aid for groupings and other purposes.

5.3 THE RETURN TO RESCUE OPERATIONS

5.3.1 The economic background

Although 1967 had been a poor year for orders and profits, British shipbuilding started 1968 with a number of advantages. First, the 1967 devaluation of sterling gave British shipbuilders a competitive edge over its rivals; second, when the boom in ship orders following

54. Confirmed in interview with Sir William Swallow. 10 April 1974.

the closure of the Suez Canal came along, British order books were so low that early delivery dates could be offered; finally, the cheap credit scheme for British owners ordering ships in British yards resulted in more orders. In the twelve months from October 1966 to September 1967 British shipbuilding obtained orders for only 422,000 gross tons of merchant ships, but in the fifteen months from October 1967 to the end of 1968 3,200,000 tons of new orders were obtained.

However, this spate of orders owed almost everything to these external factors and almost nothing to the effect of the groupings, which would not show any advantages of scale for at least two years. Some of the advantages were eroded by increased costs. A number of new productivity agreements were negotiated following the groupings, but some of these, such as that on the Tyne, produced the expected rise in earnings, but not the rise in productivity which should have accompanied them. Dan McGarvey of the Boilermakers told the CSEU conference in June 1969 that the new productivity systems were only producing results at Harland and Wolff. The SIB set up a special committee to find out why the industry's productivity agreements were not producing the expected results. Increases in steel prices also contributed to increased costs; the Geddes Report had recommended a special price reduction for steel, but instead the shipbuilders had to absorb a number of substantial increases in the price of steel during the next few years. Other material costs also rose considerably.⁵⁵ In 1965-6 British shipbuilders had suffered enormous losses as a result of large increases in cost when they had long fixed-priced order books. Following these losses there had been some caution in taking on too long an order book, but this caution faded when the

55. For details of cost increases from 1968 to 1971 see HC 347-I, Session 1971-2, pp.191-3.

order boom started in 1968. By the beginning of 1969 many British yards were heavily committed until well into 1971. Losses on contracts taken on at this time account for much of the difficulties faced by UK shipbuilders in the late 1960s and early 1970s.

5.3.2 UCS

We saw in section 5.2.2 that UCS hardly had an auspicious start. Indeed, the whole of its short life - it has existed longer as a company in liquidation than it did as a going concern - can best be described as a succession of crises. The deputy chairman resigned within two months of the formation of UCS because of disagreement with the direction the new group was taking. The chairman's personal part in travelling round the world in search of orders when others thought he should have concentrated on organising the group also caused controversy early in the group's life. This marketing effort by Mr. Hepper produced £14m of orders by May 1968, but even then many of the contracts offered little or no prospect of profit at existing levels of productivity, and the aim was to provide a volume of work to see the group through while efforts were made to improve efficiency. UCS's difficulties were increased by the delay in handing over the QE2, which had been inherited from the John Brown yard. Apart from the direct financial effect of the delay and the damage to the group's reputation, the amount of management effort diverted to the QE2 in the first few months of 1969 resulted in a slippage in the construction programme for other ships, which meant that progress payments were delayed.

It had been hoped that the group's corporate plan would be submitted by the middle of 1968, but it was considerably delayed, and UCS was in no condition to wait for further financial assistance until

it was ready. Early in December 1968 UCS applied to the SIB for grants of £6m. At the end of February 1969 the SIB paid to UCS an immediate grant of £0.5m and made a conditional offer of a further £2.5m, which depended on UCS improving productivity and absenteeism rates. The £2.5m was paid in March and April 1969 and a further £0.5m was provided in May and June.

When the corporate plan was finally submitted to the SIB at the end of April 1969 improvements in the accounting system showed that UCS needed much more financial support than had originally been envisaged. The corporate plan not only depended on the immediate availability of large grants, and later loans for capital equipment - up to £12m in total - but also asked for long-term guarantees of financial support from the SIB. The SIB refused to give financial assistance on the scale sought.

The corporate plan was publicly released at the beginning of May. It showed that UCS expected a loss of £8m in the two years up to the end of August - in fact the loss turned out to be more. The company was in real danger of going into liquidation less than eighteen months after it had started operating. After negotiations which included trips by Mr. Benn to Glasgow, the SIB offered UCS at the beginning of June £5m in grants and loans for working capital and a promise to discuss UCS's request for £4.3m for capital investment and re-equipment. The offer was subject to assurances about board and management changes, and an increased public shareholding and full cooperation by the trade unions. The SIB also made it clear that no further funds would be provided to the company under the Shipbuilding Industry Act for working capital.

A surprise development occurred on 9 June when Lord Aberconway, chairman of John Brown, offered his company's one-third share of UCS to

the government for the nominal price of £1 if the government would do its best for the workforce, would pay the creditors and would complete the contracts in hand. If the government had taken up this offer it would have held 50 $\frac{1}{2}$ % of the equity. The government did not take up the offer, being reluctant to accept open-ended responsibility for UCS's liabilities.⁵⁶ However, of the £5m aid from the SIB, £3m was to be in loans convertible to ordinary shares; this would take the combined SIB-government shareholding up to 48.4%. Had this gone above 50% Yarrow (Shipbuilders) could have exercised its option, built into the original merger agreement, to leave the group. (Yarrow did in any case leave shortly before UCS went into liquidation). The decision about the size of the shareholding was taken by the SIB, which did not discuss in detail with the Ministry of Technology the reasons for choosing that particular figure.⁵⁷ In practice, the government may well intervene to protect the workforce, but, as the UCS liquidator has found, it is reluctant to take on responsibility for creditors as well.

Throughout June, Mr. Hepper attempted to raise the £3m difference between the £12m UCS thought it needed and the £9m the SIB was prepared to make available. Among the possibilities explored were selling the land occupied by the UCS yards and leasing it back, or raising the funds abroad. However, UCS was unable to raise the £3m, though at the time it accepted the SIB offer of grants and loans in the middle of June the UCS board was still hoping to raise the money. UCS accepted the SIB's offer following an assurance that the SIB 'would

56. There is an obvious parallel with the government's preference in 1975 to give up to £162.5m to Chrysler UK rather than accept the company as a gift together with £35m from Chrysler Corporation.

57. HC 397, Session 1968-9, Q.1447.

be ready to discuss the developing financial situation with the reconstructed [UCS] Board and management in the light of the performance of the group following the implementation of the plan approved by SIB'.⁵⁸ In accepting the offer, UCS had to agree to a number of conditions including:

1. a restructuring of the board and the appointment of a separate managing director (Mr. Hepper had acted as both chairman and managing director);
2. the renegotiation of the productivity agreement with the Boilermakers Society and the implementation of other productivity agreements;
3. reduction of the workforce by about 1,300 by August 1969 and by a further 1,300 by August 1970 and a reduction of 270 in the number of staff;
4. the closure of the headquarters office at Fitzpatrick House in Glasgow;
5. the rationalisation of some production facilities and a closer integration of the yards.

The position revealed by the corporate plan shows clearly the dangers of embarking on a large-scale merger of the UCS type without a clear idea of the best structure or of the financial requirements.⁵⁹ Many of the measures necessary for success (or rather for minimising failure) were not taken until a year and a half after the group was formed. Even then they were not taken all at once - as we shall see below, the question of redundancies remained a festering sore. The problem was not merely one of delay but of having to undergo two

58. HC 397, Session 1968-9, p.250.

59. The lesson does not seem to have been learnt. At the time of the preparations for the nationalisation of shipbuilding in 1976, British Shipbuilders' first corporate plan was not expected to begin until the 1978 fiscal year.

major reorganisations within two years. The mid 1969 measures could not have been expected to have an immediate effect. There is considerable truth in the arguments that the benefits were only beginning to show by the time UCS went into liquidation in June 1971; that is not necessarily to accept, however, that the structure of UCS was optimal or that it would then at least have been able to compete without continuing government subsidy.

There was some delay in carrying out the full reconstruction of the UCS board, partly because of disagreement between the UCS board and the SIB over the future of Mr. Hepper. When the full reconstruction was carried out, Mr. Kenneth Douglas, joint managing director of the successful Wear shipbuilders Austin and Pickersgill, was appointed as managing director of UCS. Mr. Hepper remained as chairman but ceased to be managing director. The marketing, production and finance directors and two non-executive directors resigned. Under the new managing director the group made considerable progress in standardising production, concentrating on the group's designs for the 'Clyde' cargo ship and bulkcarriers.

In spite of this, UCS continued to be in financial difficulties. In August 1969 it was announced that the UCS loss since its inception, forecast in May to be £8m, was in fact £10.3m. Of this £3.6m was losses on contracts inherited from the component yards and £4.8m losses on contracts taken on since the formation of UCS. In the autumn of 1969 UCS asked for further financial assistance from the SIB. The SIB decided that it would not be justified on commercial grounds in providing such assistance and informed UCS and the Minister of Technology of this.

At this stage the issue of further aid was returned to the government to deal with directly and again became an explicitly

political problem. According to Harold Wilson, when UCS continued to be in difficulties following the June 1969 aid,

'Tony Benn, Jack Diamond and, at a later stage, Harold Lever were in constant consultation, and occupied in meetings with the UCS board. From one moment to another it was impossible to get reliable figures of the group's financial position and there was a series of crises over the next six months, when frantic telephone calls made it clear that there was no money for the wages due to be paid the following Friday'.⁶⁰

By December 1969 UCS again faced imminent closure. The ministers concerned brought the matter 'yet again' to the Economic Policy Committee and to the Cabinet:

On 11 December Mr. Benn told the House of Commons that 'to allow it a further period in which to show results' the government had decided to provide UCS with loans not exceeding £7m and, if necessary, guarantees of completion for new orders of particular and immediate value to the company because they were for early completion.⁶¹

Mr. Benn admitted that the SIB's view was that 'on strict shipbuilding industry grounds, taking into account the total sum given to it by Parliament, it would not have been right itself to have put more into this group', but he argued that 'In view of the wider economic, regional and Scottish considerations ... we thought it necessary to go in and contribute towards giving this company the opportunity of proving its capability in the future'.

However, the justification on regional economic grounds for further aid to shipbuilding on the upper Clyde was fairly weak.⁶²

60. Wilson, 1971, p.676.

61. HC Deb., 11 December 1969, cols. 662-7.

62. See section 1.3.2 and Hogwood, 1976a.

In terms of Scottish political considerations a good case could be made out for this rescue operation; there would have to be a general election in just over a year at the most, and the victory of the SNP at the Hamilton by-election the previous year suggested that the nationalists posed a threat. More generally, the UCS rescue in December 1969 showed that while governments would prefer to secure employment by making a firm 'competitive', where this approach failed they were nevertheless prepared to put in more money. Ideally the government would have liked to combine the maximisation of economic resources with the avoidance of large-scale localised redundancies, but where the two were shown to be incompatible the government plumped for the latter.

The government's commitment to avoiding redundancies was not absolute. There was clearly a trade-off between the amount it was prepared to spend and the number of redundancies it was prepared to allow. Thus it provided a further £7m to prevent complete closure, but it did allow a substantial reduction in the size of the workforce. UCS announced in March 1970 that it proposed to reduce its labour force by 3,500 men in all trades by August - more than twice the number originally planned. Mr. Ken Douglas, the managing director, took the view that if these men did not go the group would fold, putting the entire labour force out of work; the excess of 3,500 men was equivalent to £5m a year. However, labour disputes connected with the redundancy plans hindered the group's attempts to improve productivity. This was entirely predictable, since it was obvious that many of the men would have great difficulty in finding jobs if they had to go through the labour market.⁶³ Although the government was willing to

63. In the event, just over 2,000 men were made redundant between August 1969 and December 1970. For a study of the attempts of these workers to find new jobs see Herron, 1972.

rescue the company, it was unwilling to assume direct responsibility for the social consequences of the reduction in the workforce necessary if there was not to be yet another rescue operation. By declining to take on this responsibility, the government ensured that the funds which it had given would not be put to best use.

In April 1970 it was announced that UCS had agreed to sell its 51% shareholding of Yarrow (Shipbuilders). At the time of the UCS merger Yarrow had been the only clearly profitable yard on the upper Clyde but in 1969, as part of UCS, the yard lost £1.1m. Yarrow had originally joined with UCS in joint guarantees for ship contracts, but later withdrew. By early 1970 the position was that Yarrow (Shipbuilders) could not muster the financial backing to obtain new orders. It was quite clear by this stage (just over two years since the formation of UCS) that Yarrow was dissatisfied with the UCS link. Yarrow was negotiating with Scott Lithgow and Vosper Thornycroft about the possibility of merging with one of them. These negotiations had come to nothing by June, but it was announced that Yarrow and Co., which owned the other 49% of Yarrow (Shipbuilders) shares, would buy back UCS's 51% holding. In fact, Yarrow did not leave UCS until February 1971, with the help of a special Ministry of Defence loan (see section 6.2.2).

Although the government had set up the SIB as an agency to promote competitiveness in the shipbuilding industry and to make recommendations about aid to individual companies, government ministers spent a considerable amount of time in discussions about UCS. Between February 1968 and March 1970, Sir William Swallow visited UCS four times, and one of the part-time SIB members visited UCS twice; in addition, frequent visits were made by SIB officials and many meetings were held with UCS representatives in London. On the

government side, between 12 February and 9 June 1969 alone, Mr. Benn had thirteen meetings with local M.P., fifteen with UCS management, seven with the STUC, and many other meetings. Thus, even before the SIB was no longer prepared to help UCS, the Minister of Technology spent a considerable amount of time dealing with the company. In spite of this, Mr. Benn told the Select Committee on Scottish Affairs in June 1969 that the work of the SIB took responsibilities out of the department.⁶⁴ For all Mr. Benn's flying visits, it is clear from his other answers to the Committee that he was not involved in the details of the negotiations. Whatever the formal allocation of responsibilities, it would have been politically inept for the relevant minister not to have been seen to be actively concerned about a crisis.

In contrast to this veritable orgy of ministerial involvement, there was a falling off of contacts once the SIB had washed its hands of UCS and the government was involved directly.⁶⁵ This shows once again the reactive and crisis-centred nature of much government involvement in the industry. The pattern of government activity shows that agencies cannot in practice shield politicians from becoming involved in the affairs of individual firms. Political pressures make it impracticable for a minister to decline to receive representations when a firm is in trouble on the grounds that the aid is dispensed by an agency rather than by his government department.

5.3.3 Cammell Laird

Although Cammell Laird did not take part in a grouping, it was affected by another Geddes proposal - that fewer yards be invited to

64. HC 397, Session 1968-9, Q.1411.

65. HC 347, Session 1971-2, para. 115.

tender for naval orders. The government decided to concentrate nuclear submarine building at Vickers' Barrow-in-Furness yard, thus leaving Cammell Laird with a large amount of specially trained manpower which was no longer required. The government had also stipulated that Cammell Laird should order certain engines from Vickers, who had recently acquired a license to build them in the UK.⁶⁶ Delays in the delivery of these engines disrupted Cammell Laird's building schedules. Stock market rumours at the beginning of 1970 forced Cammell Laird to announce that shipbuilding losses had been heavier than forecast. When the figures were released in April 1970 it was revealed that the shipbuilding division of Cammell Laird had made a loss of £2.27m during 1969 compared with a profit of £1.35m the previous year. Altogether, losses at Cammell Laird on fourteen ships from 1969 to 1971 amounted to £12m. These losses threatened the existence of the whole Cammell Laird group, which included engineering interests as well as shipbuilding; about 7,500 out of 20,000 Cammell Laird employees worked in shipbuilding. Lengthy negotiations took place between representatives of Cammell Laird management, the SIB, the Ministry of Technology, shipowners and the shipbuilding and engineering unions to try to ensure the company's future.

Because these difficulties extended beyond the yard to the group as a whole, the SIB considered that its powers were not appropriate, so the government had to be involved directly. The government asked the Industrial Reorganisation Corporation (IRC) to undertake an investigation of the Cammell Laird group. However, the IRC was explicitly excluded from intervening in the shipbuilding industry by the Industrial Expansion Act 1968, and the Corporation

66. S &SR, vol. 115, 8 May 1970, p.6.

insisted as a precondition of its involvement that the shipbuilding division should become independent from the rest of the group, leaving the IRC free to promote the reorganisation of the group's other activities. On 4 June a scheme of financial assistance which provided for the Laird Group (as the Cammell Laird group was now to be called) to make good to Cammell Laird (Shipbuilding and Engineering) Ltd. the actual amount of the losses on the current order book up to £7.2m. To help the Laird Group meet this obligation, the IRC subscribed at par for 4,900,830 ordinary shares of 5 shillings (25p) each in the Laird Group. In addition, the IRC entered into arrangements for the provision of refund guarantees to shipowners for funds made available to the shipyard for ships being built there; government 'back-to-back' guarantees were given to the IRC which removed its financial liability. One of Cammell Laird's customers agreed to cancel orders for four chemical tankers which would have resulted in a loss of at least £2m for Cammell Laird.

As part of these arrangements, the government agreed to provide the finance for a 50% shareholding in the shipbuilding company at a price to be agreed by independent valuation. Mr. Lever, the Paymaster-General, said in announcing this that he was considering whether there were ways in which the shares in the shipyard might be dealt with, such as placing them in a trust on behalf of the employees, to give an incentive to those most concerned. This was done by arranging for the shares to be held by the Public Trustee. The management structure of the company was reorganised, and a policy of having a short order book and aiming for series orders was instituted. The announcement of the assistance to Cammell Laird was made in the run up to the General Election of June 1970, but the incoming Conservative government allowed the arrangements made by the IRC and the 50% government share-

holding to stand. However, the shares were described as being held on behalf of the DTI rather than the Cammell Laird workers.

Why was the IRC rather than the SIB involved? The SIB had no power to give loans for general purposes to Cammell Laird because the yard was not in a shipbuilding group. The SIB could provide loans for physical investment in such a yard, but the need here was for the general purposes of the undertaking (i.e. a write-off of losses). However, the IRC was excluded by the provisions of the Industrial Expansion Act 1968 from intervening in shipbuilding while the SIB was in existence. For that reason, the IRC 'came in a little unwillingly when the Government found themselves obliged to approach the IRC because they had no other way of getting at this particular problem'.⁶⁷ The government did, of course, have to subscribe directly for the 50% shareholding in Cammell Laird (Shipbuilding and Engineering) Ltd. Cammell Laird did apply to the SIB for financial assistance towards its plans for reorganisation, but the Board did not support this application 'principally because the Board was not convinced that the Company's proposals offered sufficiently clear prospects of commercial viability'.⁶⁸ The yard did eventually manage to obtain further assistance directly from the government (see section 6.4.2).

The way in which the SIB, the IRC and the government all became involved in Cammell Laird in 1970 illustrates that problems are not always considerate enough to fall into the tidy categories outlined in legislation setting up government agencies to deal with an industry. Regardless of the merits or otherwise of a single-sector agency (an issue to which we will return in chapter 9) it seems unwise to

67. Sir Anthony Port, Permanent Secretary at the DTI, HC 447, Session 1971-2, Q.1191.

68. HC 554, Session 1970-1, pp.6-7.

exclude from an agency set up to deal with industry generally the power to intervene in that sector; firms in difficulties are frequently involved in more than one sector.⁶⁹ Problems of conflict or overlap would be better dealt with in working agreements between the two agencies and the industry department rather than in legislative form which might prove inappropriate and restrictive in individual cases. The problems will be made worse when, as with Cammell Laird, the general agency is excluded from an individual sector, but the sectoral agency does not itself have full powers to deal with all types of problem arising in the industry.

5.3.4 Harland and Wolff

The history of assistance to the Harland and Wolff yard in Belfast is of a different nature to that of other UK yards, reflecting the special social problems of an area with unemployment higher than that of any of the development areas in Great Britain and with special political problems, particularly after 1969. Harland and Wolff had been receiving subsidies from the Northern Ireland government since the war and in 1966 the company was saved from liquidation by a loan of £3.5m from the Northern Ireland government. Following this, it was decided to concentrate on giant tankers and bulk carriers and to construct a new building dock. The SIB provided an £8m loan towards this, together with grants of £0.9m for entry into a market for new types of ships and £1.4m for reorganisation and disruption costs. Harland and Wolff would not have been eligible for these grants under the Geddes recommendations or the Shipbuilding Industry Act 1967 before it was amended by the Industrial Expansion Act 1968, since it had not taken part in a grouping scheme.

69. A good example of this was the Court Line collapse discussed in section 7.2.

The new building dock came into operation in 1969, but the company's financial problems continued, partly because of delays in bringing new supporting facilities into operation, but also because of low productivity and the effect of inflation on costs. In April 1970 the chairman of Harland and Wolff, Sir John Mallabar, resigned following the preliminary announcement of a £3.77m loss for the previous year. The loss in the audited accounts turned out to be considerably higher - £8.3m - mainly as a result of anticipated losses on contracts. The SIB gave £3.5m in grants to Harland and Wolff. This was considerably less than the £8.5m the company thought it would need during 1970-3, but 'The problem was that the SIB only had about £3.5 million (in grants) left in the kitty, and it made that grant on the understanding that the government would take up the rest'.⁷⁰ The SIB and the government did not have audited accounts for 1969 when the £3.5m grant was approved in July 1970 but they had informal indication that a substantial increase would have to be made in the future provision for losses. Both the SIB and the government knew that before 1970 Harland and Wolff had been quoting low prices to obtain work to keep the yard open.

In 1971 the Northern Ireland government took a shareholding in Harland and Wolff and undertook to provide funds for anticipated losses (see section 6.2.3). The SIB's grant of £3.5m was not even a full-scale rescue operation - more a dampening down of the problem while the two governments (UK and NI) sorted out the full 'fire brigade' rescue. The fact that the SIB grant to Harland and Wolff 'cleaned out the kitty' shows that an agency set up with a ceiling on grants over a period of some years may not be sufficiently flexible to deal

70. Sir Anthony Part, HC 447, Session 1971-2, Q.1645.

with problems which arise near the end of its life. It is also worth noting the extent to which a single yard can pre-empt a large proportion of the funds set aside for the whole industry: Harland and Wolff, an ungrouped yard, received more in grants from the SIB alone than the Geddes Report had recommended for all grouped yards in the industry.

5.3.5 SIB aid to other shipyards

Although UCS, Cammell Laird and Harland and Wolff received the bulk of the money dispensed by the SIB, other shipyards also received funds, which in some cases went largely towards the construction of capital facilities. For example, following the merger at the end of 1969, the Scott Lithgow group planned to construct new facilities for the construction of big ships, including a sloping building mat which would be much cheaper than a building dock. The SIB agreed to give loans of up to £2.3m and grants of £1.4m. The new facilities were almost complete by the end of 1971, but inflation increased the cost of the new facilities and seriously affected the cost of existing fixed price contracts. As an insurance against financial difficulty in the future the SIB provided an additional £0.5m on the existing loan, and a further loan of £1m, and the parent companies also agreed to make additional finance available. The Appledore shipyard in Devon received SIB grants of over £1m towards the cost of a new building dock and covered berth.

A number of other yards ranging in size from Swan Hunter and Vickers to small Humberside yards also received loans and grants from the SIB for purposes which included entry into a market for new ships, the improvement of production facilities, and the improvement of workers' amenities; this aid is summarised in table 5.3.

Applications from yards too small to have been considered by the Geddes

Committee took up a disproportionate amount of the SIB's time in terms of the sums involved and the importance of the yards to the industry as a whole.

5.3.6 The reactive nature of involvement

In carrying out these rescue operations, the government was reacting to rather than initiating events. There are a number of reasons why the government ended up adopting this responsive approach. The first was that despite the rhetoric of reconstruction the government did not see its role as an active one. Both the Geddes Report and the subsequent legislation were largely non-controversial in the sense that they conformed to the consensus between the two main parties that the government could provide assistance but should not attempt to direct the reorganisation of the shipbuilding industry.

To have adopted anything other than a reactive approach would have required the government or the SIB to have anticipated possible problems rather than wait for calls for assistance. In part, this would have required better monitoring of firms in which the SIB or the government was already involved (see section 8.5). However, in terms of available time and funds the SIB had at each stage of its life a number of existing problems and would have had to direct its attention from them to seek out possible future ones.

The Geddes recommendations for government action and the legislation which embodied many of them provided a package deal which offered little flexibility in response to changing circumstances. When some of the assumptions underlying this package turned out to be incorrect there was no guidance as to the alternative courses of action which the SIB or the government ought to pursue. The result was that the SIB and the government were left to respond to events rather than to try to shape them in a different direction. This

relative inflexibility of the initial proposals contributed to the policy failures which are analysed further at the end of the chapter.

5.4 SHIPBUILDING CREDIT GUARANTEES

The Geddes Report had recommended a very modest £30m credit scheme for ships being built for UK owners, but the government, concerned about the rapidly increasing proportion of orders from British ship-owners going abroad, had increased this figure to £200m in the Shipbuilding Industry Act 1967. Section 7 enabled the Minister of Technology to guarantee a loan towards the cost of a ship ordered by a British owner from a British shipyard. The clearing banks agreed to provide money under such a guarantee on similar terms to those which applied under ECGD financial guarantees. The shipowner paid fees to cover the legal and administrative costs of the scheme. No call arose on public funds unless there was a default by the shipowner and the security proved insufficient to cover the loan; no such default arose during the operation of the 1967 Act.

The Minister could issue guarantees only on the recommendation of the SIB and, although the loans were to the shipowner and not to the shipbuilder, the 1967 Act stipulated that the SIB should not make a recommendation unless the shipbuilder was making satisfactory progress in reorganising his resources and unless the order in question would contribute to the use of resources which were otherwise not likely to be used. When a shipbuilder sought the SIB's recommendation for a guarantee, he had to complete a questionnaire covering changes in organisation, investment plans, expected profitability, industrial relations and consultation. The SIB suspended recommendations for guarantees on only one occasion, when it was dissatisfied with progress towards reorganisation on the Wear (see section 5.2.5). On another occasion, although the SIB had made a recommendation, the government

delayed giving guarantees for several months for ships to be built by UCS because it was not satisfied that UCS would survive to complete the orders (see section 6.2.2). In general, however, the stipulation that the shipbuilder should be making 'satisfactory progress' was interpreted fairly loosely.

Although the amount of loans which could be guaranteed under the 1967 Act was several times the amount recommended by Geddes, it soon became clear that even this was inadequate. By October 1968 the shipbuilding industry was urging the government to increase the amount available under the scheme. In response to the unexpected demand for loans, the government published a Shipbuilding Industry Bill in December 1968 which doubled the amount available from £200m to £400m. In opening the Second Reading debate on the Bill, Mr. Benn said that there were two main reasons why the demand for guaranteed loans had not been foreseen: the increase from an already high level of world demand for merchant tonnage and, even more important, the increase in British orders, particularly since devaluation.⁷¹ By 1969 the clearing banks' obligations under the export and shipbuilding credit schemes had risen to such levels that the Bank of England undertook a measure of refinancing to relieve the burden on the banks.

By the end of 1969 it had already become apparent that the new limit on guarantees would be reached by early 1970. In January 1970 the government announced that it would be introducing legislation to increase the statutory limit on guarantees by a further £200m to £600m. Because of the June 1970 General Election, this legislation never reached the statute book. The incoming Conservative government undertook to reintroduce the Bill, but a new Bill was not introduced

71. HC Deb., 23 January 1969, cols. 676-7.

until early 1971. By then the requirement for guarantees had increased even further, and the Shipbuilding Industry Act 1971 raised the guarantee limit to £700m (see section 6.2.4). The Industry Act 1972 extended the limit on guarantees, which no longer required SIB recommendations, to £1,000m with provision for further extension to £1,400m. The annual Bills which had to be introduced to increase the guarantee limit illustrate the inflexibility of ceilings imposed by statute when rapidly changing circumstances require updating of the provisions of legislation. Fortunately for British shipbuilding (though reflecting the poor status of Parliament), the government took it upon itself to offer guarantees 'subject to' the passage of the appropriate legislation.

It is important to emphasise that, although the government would only have to pay out if a shipowner defaulted on his repayments, the provision of these credits was not costless in resource allocation terms. In the words of a Treasury official, 'this is £700million earmarked of the nation's savings at a relatively low rate of interest and if you have earmarking [sic] those millions, for ship-building they are coming out of something else. It has been a very big act of hypothecation to make'.⁷² Had the eventual size of the ceiling on the guarantees been known in advance both the government and the clearing banks might have balked at the scheme. However, once it had been established on a relatively modest scale it had a much greater chance as an established programme of improving its share of resources.⁷³

The provision of credits on this scale clearly went well beyond the modest Geddes scheme to ensure a steady order book during the transitional period while the new groups were reorganising their

72. HC 347-I, Session 1971-2, Q.267.

73. On the more general issue of bargaining for increased expenditure see Heclo and Wildarsky, 1974, especially pp.88-103.

resources. In the opinion of the Treasury, the credit scheme was the largest single factor in maintaining demand in British yards in the years up to 1971.⁷⁴ When asked to distinguish between the effectiveness of loans, grants and credit guarantees, Sir William Swallow of the SIB replied that he thought that the greatest benefit had ensued from the credit guarantees because in 1966-7 the order situation had been declining rapidly and if it had not been enabled to recover as a result of credit guarantees it would have been difficult to have had confidence in investing in shipyards.⁷⁵ What had been intended by the Geddes Report as a temporary measure became a central plank of government policy to ensure the survival of many shipbuilding firms.

5.5 SHIPPING INVESTMENT GRANTS

While the government was giving these guarantees on loans being made to British shipowners building in British yards, it was actually paying out similarly vast sums in grants to British registered shipowners, whether or not they built in British yards. The previous 40% tax allowance for investment in ships (compared to a general rate for industry of 30%) was replaced by investment grants under the Industrial Development Act 1966, which also enacted a general switch from allowances to grants for investment in industry. The rate of investment grant for ships was 20%, except for a temporarily increased rate of 25% between 1 January 1967 and 31 December 1968.

Grants were payable to companies incorporated in Britain even if they were foreign-controlled, and this enabled foreign shipowners to use 'brass plate' companies incorporated in Britain to place orders

74. HC 347-I, Session 1971-2, Q.266.

75. HC 347-I, Session 1971-2, Q.495.

which would attract investment grants. In an attempt to reduce abuse, the Board of Trade announced in January 1968 that certain types of cases would be subject to special scrutiny with the aim of ensuring that the transaction as a whole would not be detrimental to the balance of payments in the short term. This change did not remove concern about the amount of investment grants being paid on ships being built abroad, particularly for foreign-controlled companies. During the following year the matter was raised a number of times in the House of Commons, both in questions and in an adjournment debate.⁷⁶

By November 1969 it had become obvious that the extra scrutiny announced at the beginning of 1968 had not been sufficient to prevent large-scale payment of investment grant to foreign-controlled firms having ships built abroad (see table 5.2). The government published the Industrial Development (Ships) Bill, under which an applicant for grant would have to satisfy the Treasury that payment of the grant would result in a net benefit to the UK balance of payments. Because of treaty obligations, ships to be built in EFTA yards were exempted from the balance of payments scrutiny, and this provision provoked criticism on the grounds that it could cost the UK taxpayer millions of pounds. The Ministry of Technology admitted the existence of the EFTA loophole, but claimed that 'Means are available through exchange control which can and will be used to prevent these transactions. Secondly, as part of the scrutiny applied by Min.Tech. there is a series of checks in relation to investment grants which would also apply'.⁷⁷ However, if these methods had been fully successful in preventing abuses in similar cases of ships being built in other foreign yards it would not have been necessary to introduce new legislation.

76. HC Deb., 24 January 1968, written answers col.120; 13 March 1968, cols. 1368-71; 2 April 1968, cols.326-36; 10 July 1968, written answers col.81; 19 November 1969, cols. 329-30.

77. Times, 15 January 1970.

Table 5.2 Investment grants for foreign-built ships

Period	Ownership of shipping companies	Investment grants paid during each period (£m)	Estimated grants outstanding on ships ordered before end of each period (£m)
1 April 1967)	UK controlled	7.5	31.0
to 17 April 1968)	Foreign controlled	2.6	34.0
18 April 1968)	UK controlled	10.1	52.8
to 31 March 1969)	Foreign controlled	10.7	37.0
1 April 1969)	UK controlled	8.4	80.0
to 30 Sept. 1969)	Foreign controlled	7.9	40.0
Totals at)	UK controlled	26.0	80.0
30 Sept. 1969)	Foreign controlled	21.2	40.0

Source: HC Deb. 19 November 1969, written answers cols. 329-30.

Note: In the last year of operation of investment grants (i.e. up to October 1970) 82% of orders went to foreign yards (HC Deb., 4 December 1972, col.895). It is not possible to give a final analysis because payments continue to be made on contracts signed before October 1970. Between 1 April 1967 and 31 March 1973 a total of £378m was paid in investment grants on new ships (HC 429, Session 1972-3). Estimates in April 1973 suggested that payments might continue until 1982 and total £220m, with many of the ships concerned being built overseas (HC 67, Session 1973-4, p.xxxi).

During the period between the Committee and Report stages of the Bill the Estimates Committee published its report on the Winter Supplementary Estimates. This showed that the Ministry of Technology had wildly underestimated the amount which would be spent on investment grants for ships - the supplementary estimate of £30m represented a rise of 57% over the original estimate.⁷⁸ In evidence to the committee Mr. Ward, Under-Secretary in the Investment Grants Division of the Ministry of Technology, estimated that the grant

78. HC 71, Session 1969-70, para.27.

saving in a full year as a result of the Industrial Development (Ships) Bill could be about £5m, although he pointed out that there was nothing to stop a shipowner transferring his order somewhere else, or to an EFTA yard.⁷⁹

Further criticism emerged in the Rochdale Report on Shipping, published in May 1970, which recommended that the government should withdraw investment grants for ships as soon as practicable and replace them with investment allowances of the same nature as applied before 1966.⁸⁰ Three main reasons were given for this recommendation:

1. Unlike most other assets attracting grants, a ship is geographically mobile and it need employ few UK resources in its operation and none in its construction.
2. The need for special arrangements for the shipping industry and the obvious difficulty in formulating them underlined the difference between shipping and other industries qualifying for investment grants.
3. With credit readily available for 80% of a ship's cost and an investment grant of 20%, a UK company need put up little of its own money to invest in new ships. This was not healthy in the long term.

In July 1970 a report from the Public Accounts Committee revealed further evidence of exploitation of investment grants for ships.⁸¹ The committee examined the cases of four ships which were sold during construction abroad with the effect that a foreign purchaser ineligible for investment grant was replaced by a British purchaser who was eligible. Investment grant paid on these four ships was £2.9m, and altogether £30m in investment grants had been paid towards the cost of ships similarly transferred during construction abroad. These

79. Session 1969-70, Q.211. Denton, O'Cleireachin and Ash, 1975, p.165 are incorrect in stating that the new Act meant that only ships ordered from British shipbuilders would be eligible for grants.

80. Cmnd 4337, pp.366-70.

81. HC 297, Session 1969-70, pp.xix-xxi.

transactions had obviously taken place to exploit the availability of UK grants, since in each of these four cases the ship was to be used after completion for the purpose intended by the original shipowners. Control over the grants was so inadequate that investment grant was even paid on a £143,000 premium over the original contract price paid by the British company to the original shipowner. In three out of the four cases examined grant would probably not have been payable under the Industrial Development (Ships) Act 1970, but grant would have been payable on the fourth ship as it was built in a EFTA country.

After the June 1970 General Election the new Conservative government announced the ending of investment grants for ships as well as for all other assets, though grants continued to be payable where contracts had been signed before October 1970. When some investment grants were reintroduced by the Industry Act 1972 the government resisted calls to include shipping so that grants could again be paid to shipowners. The Public Accounts Committee continued to review the issue of grants being paid where there was no benefit to the UK well after it was too late to do anything about it.⁸²

The payment of grants to shipowners to build abroad illustrates that to a large extent incentives for shipping and shipbuilding are necessarily conflicting in their purposes. Incentives to promote a modern, efficient British fleet must allow British shipping companies to build abroad if foreign yards offer the best terms. To do otherwise would be to promote British shipbuilding at the expense of British shipping. However, a large proportion of the total paid in investment grants for ships did nothing to assist either shipbuilding or UK-controlled shipowners. The government clearly failed to

82. HC 303, Session 1974, pp.xxi-xxv.

recognise early enough that ships were different in kind from other investment goods. When abuses arose the government responded by successive restrictions rather than by a complete change in the method of assisting shipowners. While the process may have been incremental, the sums of money lost as a consequence were certainly not trivial.

The saga of investment grants for ships also tells us something about the way British governments allocate resources. The lack of control over expenditure which produced no benefit to the UK has already emerged clearly in this section, but of at least equal importance is the fragmented nature of decision-making about related topics. Investment grants for ships and the package of aid for shipbuilding embodied in the Shipbuilding Industry Act 1967 both affected shipbuilders and shipowners, but decisions about each package were taken separately and at different times (and sometimes by different government departments; see chapter 9). There was clearly no attempt to measure the opportunity cost of aid to shipping compared to aid to shipbuilding. While one might despair of measuring the balance of benefit of giving an extra £1m to nursery schools with an extra £1m to shipbuilding, one might reasonably hope for some co-ordination between two very closely related expenditure proposals. If one judged the government's resource allocation priorities by their expenditure outcomes one would be forced to the conclusion that the government accorded a very much higher priority to shipowners building abroad than it did to the British shipbuilding industry, since in the period 1966-70 it gave away in grants to foreign-controlled shipowners building ships in foreign yards substantially more than the SIB spent in both grants and loans on British shipbuilding. This bizarre outcome was not, of course, the result of prior intention, but was a consequence of fragmented decision-making, faulty initial programme

design, and a palliative approach to dealing with the problem once it became apparent.

5.6 SHIPBUILDING AND REGIONAL POLICY

All of the shipyards which received substantial aid from the SIB were in development areas, and in addition to special shipbuilding assistance were eligible for various kinds of regional assistance, including investment grants and regional employment premium (REP). Not all shipyards were in development areas, however, and those outside felt themselves disadvantaged in securing orders at profitable prices, particularly after the introduction of REP in September 1967. Firms outside the development areas were generally much smaller than those inside (with the exception of Vosper Thornycroft), and altogether accounted for only 10% of manual labour employed in shipbuilding. The government's own estimate of the advantage in shipbuilding costs resulting from REP and selective employment tax premium was about 2% on average of the total cost of a ship.⁸³ The SRNA asked the government to pay REP to all shipbuilding, shiprepairing and marine engineering firms regardless of geographical situation, but the government refused. In December 1967 a deputation of Labour MPs lobbied Mr. Benn on behalf of the shipyards outside the development areas and ten of the companies joined in a campaign for equality of treatment with development area yards. The government's response was to advise the shipbuilders to submit evidence to the Hunt Committee, which was considering the problems of the intermediate or 'grey' areas.

When the Hunt Committee reported in April 1969, it recognised that the problems of the shipbuilding and shiprepairing industries as presented to it 'constituted a striking example of the discriminatory

83. HC Deb., 1 December 1967, written answers cols. 192-3.

effects of the present development area package'.⁸⁴ However, the committee pointed out that there were other industries similarly affected and did not consider that a case had been made for treating shipbuilding and shiprepairing differently from other industries, or for special measures of assistance for the areas outside the development areas. Many of the small shipyards did happen to fall in the new intermediate areas designated following the Hunt Report, but the assistance given to these areas did not include the all-important REP. Both the SRNA and individual shipbuilders reacted bitterly to the report's recommendations.⁸⁵

The government's refusal to extend REP to non-development-area shipbuilders provides further evidence about the relative importance of sectoral and locational considerations in determining government policy. Had sectoral considerations been the only consideration the government might well have been inclined to assist all shipbuilders equally. However, government assistance to shipbuilding has clearly been influenced by two locational characteristics which most of the non-development-area yards did not fulfil; (1) aid was concentrated on large shipyards where shipbuilding employment constituted a large proportion of the local community and constituency; (2) these large yards were in areas of high unemployment.

5.7 ASSESSING GOVERNMENT INVOLVEMENT 1967-70

5.7.1 Analysing the financial assistance

Although the SIB continued to exist until the end of 1971, its useful life was already coming to an end by mid-1970, since, as we saw in section 5.3.4, it had almost run out of funds to allocate for grants.

84. Cmnd 3998, paras. 123-8.

85. Times, 26 April 1969.

The change of government in June 1970 therefore provides a useful end date for analysing at aggregate level the government assistance to individual yards considered in this chapter. Table 5.3 shows SIB payments to firms by category and year. These sums exclude the finance provided by the government, the IRC and the Northern Ireland government to UCS, Cammell Laird and Harland and Wolff, which during the lifetime of the SIB amounted to more than the total SIB assistance (assistance to these firms after mid 1970 is considered in chapter 6). The industry also received assistance in the form of a rebate of indirect taxes (shipbuilders' relief) and the exemption of supplies from import duty; from the time of its introduction in the autumn of 1966 to May 1971, about £16m was paid out in shipbuilders' relief.⁸⁶ Shipyards in development areas were also eligible for various general regional grants (though these probably did not amount to more than about £3m in the period 1967-71) and for REP and refunds of Selective Employment Tax (SET) which together amounted to about £28m in the period 1967-71.⁸⁷

The most obvious point illustrated by table 5.3 is that while nearly all the £20m available in grants was distributed, only two-thirds of the amount available in loans was taken up. Further, as we have seen above, the SIB had almost run out of funds to allocate for grants eighteen months before it was wound up. It should be recalled that the £20m available in grants compared with the Geddes recommendation of £5m for transitional losses only, but that the £32.5m in loans was the same as the total recommended by Geddes. The main reasons for

86. Denton et al., 1975, p.174.

87. Denton et al., 1975, p.178-9. However, in attempting to calculate the subsidy rate for each shipbuilding firm, Denton et al. make serious errors in allocating REP/SET to individual firms. These and other errors in their calculations of subsidies are analysed in the appendix to this chapter.

Table 5.3 SIB payments to shipbuilders 1968-71 (£000s)

Company	Section 3 grants						Section 5 interest relief grants						Section 4 (loans)						Section 2	Section 6	Total
	1968	1969	1970	1971	1971	Total	1968	1969	1970	1971	1971	Total	1968	1969	1970	1971	1971	Total	consultant fees 1968	equity 1970	
Appledore	—	—	—	—	34.9	34.9	—	—	—	—	—	—	—	—	—	250.0	814.0	1064.0	—	—	1698.9
Austin & Pickersgill	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Cammell Laird	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Doxford	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	12.6	—	12.6
Govan/UCS	—	2200.0	3300.0	—	—	5500.0	—	219.5	265.9	265.3	—	750.7	3250.0	270.0	—	—	—	3520.0	20.8	3000.0	12791.5
Harland & Wolff	—	113.8	1150.3	4239.0	275.4	5778.5	—	71.6	511.7	676.3	—	1259.6	—	5000.0	3000.0	—	—	8000.0	—	—	15038.1
Robb Caledon	—	—	—	—	104.0	104.0	—	—	—	—	—	—	—	—	200.0	200.0	—	400.0	10.0	—	514.0
Scott Lithgow	—	—	—	752.8	647.2	1400.0	—	—	—	5.5	31.3	36.8	—	—	—	2128.6	1671.4	3800.0	8.9	—	5245.7
Swan Hunter	—	2865.5	1222.5	552.0	1176.0	5816.0	—	—	—	—	—	—	—	—	—	—	—	—	22.2	—	5838.2
Vickers	—	—	—	—	10.3	10.3	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10.3
Vosper	—	—	—	89.0	—	89.0	—	—	—	—	—	—	—	—	—	—	—	—	9.8	—	98.8
Yarrow	—	—	—	—	153.2	153.2	—	20.6	89.8	96.3	—	197.7	250.0	665.0	270.0	—	—	1185.0	37.4	—	1573.3
Drypool	—	—	—	—	15.8	15.8	—	—	—	—	—	—	—	—	150.0	—	334.0	484.0	—	—	499.8
Dunston	—	—	—	—	7.6	7.6	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7.6
Hall R.	—	—	—	—	11.0	11.0	—	—	—	—	—	—	—	—	—	—	—	—	—	—	11.0
Holmes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	85.2	85.2	—	—	85.2
Ryton	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	100.0	100.0	—	—	100.0
Total	—	5179.3	5672.8	5632.8	2435.4	18920.3	—	311.7	858.4	1043.4	31.3	2244.8	3500.0	5935.0	3620.0	2578.6	3004.6	18638.2	121.7	3000.0	42935.0

Source: Booz-Allen Report, 1973, exhibit 73, p.180.

Notes: Excludes payments to marine engine builders.
Years denote financial years.

the failure to take up all the loans were the reluctance of the shipbuilding companies to pay the high rates of interest (by the end of the SIB's life considerably higher than at the time of the Geddes Report), and their anxiety about their future cash position when the loans had to be repaid. The Geddes Report had partly foreseen these worries, and had recommended that the SIB should be empowered not to charge interest in the first three years. The Shipbuilding Industry Act 1967 had included a provision in section 5 for grants for the remission of interest, but only to the end of 1970. Because 1967 was a bad year for orders and because of delays in coming forward with suitable projects, the industry did not benefit much from the remission of interest. This is reflected in the pattern of section 5 payments over time shown in table 5.3.

We can also compare the details of the uses to which SIB money was put (table 5.4) with the Geddes recommendations (table 5.5). On the grants side, we can see that, apart from the total sum involved being four times larger than that recommended by Geddes, the range of purposes for which grants were given was considerably wider than the contribution to transitional losses proposed by Geddes.

Table 5.4 The purposes for which the SIB money was spent

Purpose of grants	£000	Purpose of loans	£000
Entry into new markets for new types of ships	4,875	Acquisition of shares for grouping	1,550
Reorganisation, modernisation and disruption costs	3,995	Working capital	3,100
Welfare amenities	406	Capital equipment and reorganisation of resources	13,988
Special assistance to Swan Hunter towards buying Furness	1,000	Total loans	18,638
General purposes: UCS	5,425	£3m shares in UCS	3,000
Harland & W.	3,500		
Total	£19,201¹	Total loans & equity	£21,638

Source: HC 316, Session 1971-2.

Note 1: Includes grants to marine engine builders of £281,000.

Table 5.5 Purposes of assistance recommended by the Geddes Report¹

Purpose of grants	£000	Purpose of loans	£000
Contribution to transitional losses	5,000	Towards buying an interest in a participant in a grouping scheme	5,000
		Working capital (including realisation scheme)	12,500
		Rearrangement of facilities and capital projects	15,000
Total grants	£5,000	Total loans	£32,500

Source: Geddes Report (Cmd 2937), pp.147-8. For details see section 4.4.3.

Note 1: All figures are maxima.

On the loans side, the total amount lent for working capital, £3.1m compared to the Geddes maximum of £12.5m, seems surprisingly low at first sight since many shipbuilding firms were chronically short of working capital throughout the lifetime of the SIB. However, the SIB was constrained by commercial considerations in making these loans, however widely these may sometimes have been interpreted. The figure of £3.1m is in any case misleading. Because the distinction between working capital and compensation for losses turned out in practice to be a fine one, the £3.1m should be considered together with the £3m taken in shares in UCS and the nearly £9m given in grants for 'general purposes' to UCS and Harland and Wolff. To this should be added the aid to Harland and Wolff from the Northern Ireland government in 1966 and 1971, the £7m given directly to UCS by the government in 1970, and the aid given by the IRC and the government to Cammell Laird in 1970-1, which together add up to substantially more than the amount allowed for working capital by Geddes.

The £14m lent for capital equipment and reorganisation is very close to the £15m maximum recommended by Geddes, but this is misleading, since most of the money (£8m) was lent to Harland and Wolff (an ungrouped yard) for the construction of a new building dock. Of the remainder of the £14m lent by the SIB under this heading, over £1m each went to Appledore (then an ungrouped yard) and Yarrow (originally in UCS, but left the group early in 1971) towards the cost of covered building yards. The Geddes Report had not envisaged 'new yards or the complete reconstruction of existing yards', and limited the amount available for capital investment in ungrouped yards to £2m out of the total.⁸⁸ Comparisons of the Geddes proposals with the figures for the money actually spent therefore have two implications: the Geddes

88. Cmnd 2937, paras. 551, 558.

Committee underestimated the need for extensive rebuilding of yards, and the amount spent by grouped yards on capital projects was well below that estimated as desirable by Geddes.

More significant than whether various categories of assistance conformed closely to the Geddes recommendations is whether the assistance achieved the desired results. The verdict of the Public Accounts Committee was that 'many millions of pounds of public funds provided for distribution to the shipbuilding industry through the SIB have been spent for purposes which had little to do directly with improving the industry's ability to compete in world markets'.⁸⁹ As we saw in sections 5.2 and 5.3, much of the money spent by the SIB and all of the money put in by the government directly is best described as contributing to rescue operations rather than the industry's ability to compete without continuing subsidy. The consequence of this, as will be shown in chapter 6, was that the government continued to pour sizeable sums of money into the shipbuilding industry in order to prevent large-scale closures.

Clearly, this analysis of financial assistance to shipbuilding is concerned both with non-implementation and with implementation failing to have the desired results (see section 1.5). A number of the Geddes proposals relating to financial assistance were never fully implemented - the total available in loans was not taken up. This illustrates the point that the implementation even of proposals directed at the government (leaving aside for the moment the implementation of proposals directed at others or whether implementation had the desired effects) may require actions on the part of non-governmental actors where the probability of all the necessary actions being performed is

89. HC 447, Session 1971-2, para.13.

significantly less than unity - even if these actions involve the acceptance of government money. (In fairness to Geddes, it should be noted that the figures he proposed were maxima rather than targets, though these maxima were based on what was thought necessary for full reorganisation). Parallel with this failure to implement all the original proposals was the expenditure of additional sums in other ways - both the extra SIB grants and the money put in by the government directly. This points to both an initial failure to analyse the conditions necessary for the acceptance of assistance and the changing circumstances since the proposals had been drawn up.

In addition to implementation being only partial, even this partial implementation failed to have the effects desired. Neither groupings nor much of what capital expenditure did take place produced the full amount of extra competitiveness hoped for. This was due in part to overoptimism about the differences which mergers or new facilities could make, but it was also because to a considerable extent the desired effects of government-assisted changes were contingent on actions by management and workers in the shipyards and to the right economic conditions prevailing. Thus, to point to the way in which public funds were spent without placing them in the context of the circumstances in which the SIB had to operate would be to imply a degree of incompetence on the part of the SIB which would not be correct. Analysis of the failure of government policy requires other considerations to be taken into account, and this will be undertaken in the remainder of this chapter.

5.7.2 SIB's other activities

Public attention was focussed on SIB's role in promoting mergers in the shipbuilding industry and providing large-scale financial

assistance, but the SIB also carried on a number of other activities to promote the competitiveness of the industry. Some of these were really prerequisites of the regeneration of the industry which the SIB was trying to achieve, such as the work of a group of shipbuilding finance directors formed in 1968 to consider ways to improve the standard of cost accounting and managerial reporting in the shipbuilding industry in the UK. The eventual outcome of the review was a manual, Accounting and Reporting for Managers in Shipbuilding, published by the SIB in 1971. This could be regarded as a 'horse after the cart' activity, because only if the standardised procedures outlined in the manual had been put into practice could full benefit have been obtained from the grouping schemes and the SIB assistance (see also section 8.5.2).

The Geddes Report had recommended more market research by the shipbuilding industry and the building up of strong sales departments in all companies. The SIB gave support to the Marine Transport Research Section formed by the SRNA in April 1968 to carry out market research and commissioned Professor Roland Smith of the University of Manchester Institute of Science and Technology to advise it on the theory, method and organisation of marketing as applied to the shipbuilding industry. After visits to the main shipyards and discussions with their senior executives, Professor Smith submitted to the SIB a report which examined marketing procedures and suggested improvements. The SIB subsequently circulated the report to representative organisations in the industry in the belief that the adoption of the recommendations in the report would be of general benefit to the industry.

In some of its promotional activities the SIB worked through the Shipbuilding and Shiprepairing Council (SB&SRC), which replaced the

Shipbuilding Advisory Committee. The SBSRC consisted of the members of the SIB, six representatives each from management and unions in shipbuilding, and a representative each from shiprepairing, Marine engineering, marine equipment, BSRA and the Ministry of Technology. The chairman of the SIB took the chair of the SBSRC. Although the SBSRC's formal function was as a forum for consultation between the SIB and the shipbuilding industry, the SIB also used the SBSRC as an indirect channel to the government when it shared with both sides of the industry concern over an issue such as the increases in steel prices in 1971. A number of the SIB's publications, such as Safety, Health and Welfare in the Shipbuilding Industry, were commissioned by the SBSRC.

More difficult to assess is the SIB's general effect as an external stimulus to a traditionally inward-looking industry. The role of the chairman, with his personal experience in other engineering industries, was particularly important. Sir William Swallow was not afraid to tell those in the industry what improvements he thought were necessary. The SIB's promotional activities were not, of course, sharply divided from its role as a provider of financial assistance. Sir William's own assessment six months before the end of the SIB's life was that 'The SIB can claim to have strongly influenced improvements in cost accounting, budgeting, cash forecasting and marketing, partly by consultation and partly by pertinent questioning when seeking supporting information for loan applications and credit guarantees'.⁹⁰

Although they may not have produced spectacular effects, the money and effort put into the SIB's promotional activities certainly produced better returns than the far more expensive assistance provided

90. S&SR, 9 July 1971.

in grants and loans. Although the role of paragovernmental agencies is criticised elsewhere in this study (section 9.3), there does seem to be a case for a body dealing with this type of involvement. However, in a situation of continuous change there seems to be no logical reason why such an agency should have a limited lifetime. This need could be fulfilled by an expanded independent staff for the shipbuilding NEDC (which replaced the SBSRC after a delay) under a head who has made a reputation of his own in an industry other than shipbuilding.

5.7.3 Industrial relations and performance

Despite the differences between recommendation and outcome described in section 5.7.1, it is relatively easy to spend money in specific ways compared to the difficulty of improving industrial relations and day-to-day performance in the yards. Further, it is easier to secure formal agreements about the improvement of industrial relations than it is to alter the behaviour of those on whom the improvement depends. Some progress was made towards the implementation of the Geddes recommendations on industrial relations with the formation of a Joint Industry Consultative Committee in 1966, an agreement between the SRNA and the CSEU in 1967 on a National Procedure for the Avoidance of Disputes, and an agreement between the SRNA and the trade unions affiliated to CSEU in 1969 on a National Demarcation Procedure. Less progress was made on other recommendations: productivity bargaining failed to live up to expectations (see section 5.3.1); no progress was made towards reducing the number of unions in the industry; the number of industrial disputes increased, though this was a trend not confined to shipbuilding.

In September 1969 the government told unions and employers that it proposed to refer shipbuilding and shiprepairing to the new Commission

on Industrial Relations (CIR) as its first industry-wide reference. The SIB, through the SBSRC, joined with the employers and trade unions in objecting initially to the necessity for the reference, sharing the view that industrial relations had improved in recent years. However, the government went ahead with the formal reference in January 1970. The CIR was asked to examine industrial relations since the Geddes Report, particularly the 1967 disputes procedure agreement and the 1969 demarcation procedure agreement and to assist in promoting any further improvements that appeared necessary. In March 1970 the CSEU decided to give the enquiry its full backing. This reversal of attitude was made for explicitly partisan political reasons; Mr. Dan McGarvey, the boilermakers' leader and chairman of the CSEU shipbuilding committee, said:

'One of the things which swayed the executive in its decision is that, whether we like it or not, we are in the 12-months election period ... We want to see the Labour Party returned to power and we think that a favourable report from the CIR will help. I see nothing wrong with that.'⁹¹

However, the CIR Report did not appear before the 1970 General Election. A preliminary report was ready by January 1971 and was circulated to unions and employers, but the final report was not published until August 1971.⁹² The report drew attention to two features of industrial relations in the industry:

1. The comparative narrowness of the area subject to joint determination by negotiation and consultation and the wide areas of common concern that were subject to independent control by one side or the other.

91. Times, 13 March 1970.

92. Cmnd 4756.

2. Interwoven with the prevalence of independent action was sectionalism - the extent to which action on the workers' side was frequently confined to the individual union or work group. The general finding of the report was that, while progress had been achieved since Geddes, the practices of independent action and sectional behaviour had combined to prevent measures of reform that had taken place from achieving full success. Since most of the report's recommendations were for action by unions and employers, and neither accepted the report, it was effectively shelved.

Thus poor industrial practices had the effect of minimising the impact of government assistance in promoting the ability of the industry to compete without continuing subsidies. However, government assistance can itself have an adverse effect on industrial performance in some circumstances. The CIR Report accepted that government support had improved the prospects for stability and security of employment but argued:

'At the same time there are grounds for believing that financial assistance has in some cases had an adverse effect on industrial relations by encouraging the belief that Government support would always be forthcoming whatever difficulties the companies got into and thus diminishing the incentive for reform and for realistic settlements. So that whilst the fact of financial assistance has been beneficial to the companies concerned and those employed in them, the manner of its provision, and the assumptions engendered in those receiving it, may have militated against the achievement of necessary changes. In no such cases was the provision of aid made conditional upon any changes in the conduct of industrial relations'.⁹³

93. Cmnd 4756, paras. 404.

The shipbuilding workers were generally correct in their assumption that the government would continue to bail them out despite earlier protestations to the contrary. The belief in open-ended government support also explains much of the bitter reaction when the Conservative government allowed UCS to go into liquidation in June 1971 (see section 6.3). The government approach to shipbuilding assistance contained a basic flaw in its failure to take account of the relations between performance in the yards and the type of assistance given. While shipbuilding companies were provided with the finance which might have enabled them to improve performance, workers frequently had little incentive to cooperate in operating new equipment or removing restrictive practices. Because of sectionalism the winning of the right to operate a new piece of equipment by one trade might be seen as the loss of potential employment by another. Where redundancies were called for the workers were unloaded onto the normal labour market, which was frequently unable to cope. At the same time, the government itself removed the main sanction against non-cooperation - mass unemployment following collapse of the company. This is not to argue that there was no cooperation and no improvement in performance; the point is that the improvements required were very substantial and could only have been achieved by an appropriate mixture of incentives and sanctions in which the government would have had to be directly involved - for example, by providing specific alternative employment in step with proposed redundancies. These generalisations do not, of course, apply equally to all UK shipbuilders, but mainly to those which have continuously received government assistance. The motto of the government appears to have been 'To them that have received shall be given'.

5.7.4 The reasons for failure

Failure was simply inevitable. The successful achievement within a period of five years of a shipbuilding industry able to compete without further assistance would have required the existence of a set of circumstances many of which would have been unlikely individually and which in combination were virtually impossible. Failure resulted partly from design faults in the government's approach, which have been touched on at various points in this chapter, and partly because of unforeseen economic developments affecting shipbuilding.

The economic conditions under which the SIB had to operate were much more difficult than those expected when Parliament passed the Shipbuilding Industry Act 1967. The main cause of the shipbuilders' losses was the effect of inflation on costs on contracts taken at fixed prices. Inflation hits particularly hard those industries such as shipbuilding (or Rolls Royce and the RB211) where there is a long lag between signing of contract and delivery, but the causes of inflation do not lie within the individual industry - though measures such as improving turnover can mitigate its effects. On the other hand, many of the loss-making orders were obtained during the order boom following the closing of the Suez Canal and the 1967 sterling devaluation - the latter a decision taken on general economic grounds. Thus the results of government policy to deal with the problems of a particular industry can depend to a very large extent on the general economic environment in which the industry operates, which is in turn affected by decisions which the national government takes.

This environment in which the industry operates is not, of course, purely a national one. The surge of orders in the late 1960s was a worldwide phenomenon in which the UK shared less than most. On the

supply side Britain's competitors are naturally trying to improve their own sales. The Booz-Allen Report found that sales revenue per employee in some European companies increased at a much higher rate than for UK merchant shipbuilders in the period 1967-71.⁹⁴ Major European companies undertook a higher level of capital expenditure compared to UK merchant shipbuilders though the advantage of this was largely offset by higher labour costs. Thus in seeking to promote the competitive ability of the UK industry the British government was not aiming at a fixed target but at a continuously receding threshold over which its control was effectively nil.

Higher hopes might be held of the government's ability to promote improvements in the performance of the UK industry to meet this challenge. However, as the Geddes Report recognised, many of these improvements could only come about as a result of decisions by management and unions which the government could seek to influence but did not have, or was not willing to use, sanctions to impose. Section 5.7.3 showed just how difficult it is to obtain desired levels of performance in this way. Differences in the government's approach might have led to improvements in performance greater than those that actually took place, but it would have been remarkable if the improvements were sufficient to ensure that all parts of the UK industry were in future able to compete without further subsidy.

From the point of view of the agency set up to promote competitiveness, it had to operate in a changing environment over which it had virtually no control, but had a fixed sum of money to distribute on fixed conditions within a relatively short time period. What looked like a commendably strategic approach at the policy

94. Booz-Allen Report, 1973, p.220.

formulation stage had become by the implementation stage a recipe for impotence. The government did, after all, have to adopt a 'tactical' ad hoc approach which fell outside the capabilities of the strategic approach. In terms of flexibility of funds and the range of problems it could tackle the IRC might well have proved a more suitable vehicle for government assistance than a single-sector fixed-lifetime agency.

However, this would not have avoided an even more significant issue - implementation is not merely a matter of optimum administrative arrangements, it is a fundamentally political process. Shipbuilding was not removed from the political agenda simply because legislation had been passed and an agency set up to dispense funds. Politicians could not be seen to be unconcerned either about the way public funds were spent or about the fate of the jobs of thousands of workers. During the second reading debate on the Shipbuilding Industry Bill 1967 Mr. Benn asked for a 'self-denying doctrine of non-intervention' and said that he was 'anxious that in the months ahead I shall not be drawn by hon. members or others into too much comment on the detailed arrangements and negotiations in which the Board will be involved with the individual yards'.⁹⁵ Yet, as we have seen (section 5.3.2), Mr. Benn himself became closely involved in receiving representations over UCS even before the SIB had refused to put in any more money.

The experience of shipbuilding policy in the late 1960s shows the impossibility of keeping politics 'at arms length' in implementing industrial policy, because the choices which have to be made are political ones. At the end of chapter 4 it was suggested that the

95. HC Deb., 9 March 1967, col. 1786.

Geddes approach suffered as a consequence of the separation of policy formulation from implementation. This chapter has confirmed that problems arose in practice as a result of this separation and has also shown the difficulties which governments are likely to meet in attempting to separate implementation from political responsibility.

APPENDIX

ERRORS IN CALCULATING SUBSIDIES BY DENTON ET AL., 1975.

While the final version of the present work was being completed a book on the trade effects of public subsidies to private enterprise by Denton, O'Cleireachin and Ash became available.⁹⁶ This study analyses public assistance to British shipbuilding in the period 1967-71 as one of two case studies (the other is of the development of the British aluminium industry). Although the authors' concern as economists is with the trade effects, their attempt to calculate subsidies is of obvious relevance to the present chapter. In particular, they attempt to calculate a subsidy rate for each major merchant shipbuilding firm as a percentage of total revenue from sales, based on SIB assistance, shipbuilders' relief, ad hoc state assistance and benefit from SET and REP.⁹⁷

However, their calculations contain a number of errors which in the opinion of the present writer render the final figures meaningless, if not misleading. The most serious error relates to the calculation of the benefit derived from REP and SET by individual firms. The authors' state that 'Total employment in the industry has remained very stable since the mid-1960s and, in the absence of further

96. Denton et al., 1975.

97. Denton et al., 1975, pp.184-5, table 21.

information it is assumed that fluctuations in the number of employees in industrial [sic] firms were also minimal'.⁹⁸ In fact there is evidence of substantial fluctuations in two of the basic reports on the industry, the Geddes Report and the Booz-Allen Report, which Denton et al. refer to elsewhere in their book.⁹⁹ Since Denton et al. use 1972 employment figures for each firm to calculate REP/SET for the period 1967-71 the effect is to exaggerate the subsidy paid to a firm like Scott Lithgow, which expanded its workforce during the period, and to underestimate the subsidy to firms like UCS, whose workforce contracted. Since the benefit from REP/SET constitutes the bulk of the subsidy for a number of yards, the effect of this error on the final figures is very serious.

Other points of relevance to the figures calculated by Denton et al. are:

1. They state that Appledove received SET refund only, and not REP, since it is not in a Development Area. In fact the yard was in a development area throughout the period (and still is), so the effect is to underestimate the subsidy paid to Appledove.
2. Although this is not mentioned, Yarrow is not included under UCS or listed separately. Admittedly, Yarrow is a naval shipbuilder, but since it operated as a subsidiary of UCS for nearly all of the relevant period, the implications of this for calculating the subsidy rate should have been noted.

98. Denton et al., 1975, p.183. The word 'industrial' must be a misprint for 'individual' if the sentence is to make sense.

99. Cmnd 2937, p.98, table 5; Booz-Allen Report, 1973, p.160, exhibit 61. Hogwood, 1976a, pp.11-12 provides evidence of fluctuations on the Clyde. See also section 1.3.2.

In conclusion, apart from the misleading impression created by their figures, Denton et al. have assumed away what is arguably one of the most politically significant features of change in the shipbuilding industry - that it is not the national aggregate employment figures that matter but changes in location-specific employment. The lesson to be drawn from their mistakes is to beware of assuming that what is true at the aggregate level is also true at the individual level.

CHAPTER 6

SHIPBUILDING UNDER THE CONSERVATIVES 1970-3

6.1 THE COMMITMENT TO NON-INTERVENTION

It is now part of political folk-lore that the Conservatives came into office in June 1970 with a general commitment to not intervening in industry, yet within two years had introduced a comprehensive system of government assistance. It is, however, worth exploring the precision of this commitment and the extent to which exceptions were built in from the start. This section examines how the party's commitment to non-intervention was expressed, in particular how it was seen as applying to shipbuilding, and analyses the extent to which the initial formulation of the approach contained the seeds of the political difficulties of implementing the approach in practice.

Although the Conservative Party in Opposition had supported the Shipbuilding Industry Act 1967 (though not the section enabling the SIB to take shareholdings), it took a more hostile attitude to the direct government assistance to UCS in December 1969. In the same month, Mr. Nicholas Ridley, then an Opposition spokesman on technology, met Sir Eric Yarrow, and following this recommended to Sir Keith Joseph, the main Opposition spokesman on industry, that the best long-term solution to the problem of UCS was:

- (a) to detach Yarrow from UCS and allow it to be independent prior to merging with Scott Lithgow or Vosper Thornycroft;
- (b) for the government (Labour or Conservative) to bail out the rest of UCS - to write off its debts, sell off government shareholdings, close one or even two of its three yards, appoint a new chairman, and let it stand or fall on its own;

(c) to work toward an eventual merger of Scott Lithgow, Yarrow and UCS. Mr. Ridley estimated that the employment effects of this would be about 1,000 net fewer jobs and saw the alternative as the continuation of huge losses, or the collapse of UCS and 13,000 unemployed.

Following a subsequent meeting with Mr. Hepper and Mr. Douglas of UCS, Mr. Ridley changed his recommendations to:

- (a) give no more public money to UCS;
- (b) let Yarrow leave UCS if it still wanted to and facilitate its joining Scott Lithgow if it still wanted to;
- (c) this would lead to the bankruptcy of UCS; a Conservative government could accept this, in which case Scott Lithgow could take over one or two of the yards - there would be a net loss of 1,500 jobs - or the government 'could put in a Government "Butcher" to cut up UCS and to sell (cheaply) to Lower Clyde, and others, the assets of UCS to minimise upheaval and dislocation';
- (d) after liquidation or reconstruction the government shareholding should be sold, even for a pittance.

These feats of instant policy formulation were not public policy statements but private recommendations. The Guardian 'obtained' copies of the documents and published them on 6 May 1970.¹ Mr. Davies claimed at the beginning of August 1971, after the liquidation of UCS, that he had heard of the 'Ridley Report' for the first time the previous month, and then through The Guardian.² This indicates that recommendations formulated in Opposition were not transmitted to senior ministers who subsequently became responsible for the subject,

1. Guardian, 6 May 1970.

2. HC Deb., 2 August 1971, cols. 1096-7.

which must detract from the value of carrying out such exercises in Opposition in the first place. Mr. Ridley was himself a junior minister at the Department of Trade and Industry (DTI), but he became less involved in shipbuilding matters following the collapse of UCS, and was dismissed in 1972.

In the same month as Mr. Ridley was making his first set of recommendations about UCS, Mr. David Price, Opposition front bench spokesman on science and technology, listed shipbuilding as one of six sectors for continuing government intervention under any future Conservative administration (the other five were civil aircraft, microelectronics, heavy electrical plant, cotton textiles and hovercraft). However, according to Peter Walker, Secretary of State for Trade and Industry after 1972, industrial policy as such was not discussed at the famous Selsdon Park conference of shadow ministers in 1970.³ The proposal to abolish the IRC was confirmed, but nothing was said about what should take its place.

The Conservative Party's 1970 election manifesto, A Better Tomorrow, took a generally negative attitude to government involvement in industry, though it did say that 'Special assistance for particular industries like shipping will be continued'.⁴ In his speech to the Conservative Party's October 1970 Conference, Mr. John Davies, the new Secretary of State for Trade and Industry, proclaimed that 'To abandon great sectors of our productive community at their moment of maximum weakness would be folly, but I will not bolster up or bale out companies where I can see no end to the process of propping them up'. He recognised that some industries, such as aircraft production were 'going through a period of world-wide disarray and need a helping hand',

3. Peter Walker, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Events of 1972-Industrial Policy'. BBC Radio, 31 July 1976.

4. Conservative Central Office, 1970. For a general account of the development of Conservative policy on disengagement, see Young with Lowe, 1974, chapter 11.

but he would not accept involvement in an open-ended liability.⁵

The commitment to non-intervention was therefore qualified in its general application and ambiguous in the extent to which it was to be applied to the shipbuilding industry. Once it is conceded, as it was by the new Conservative government, that there are circumstances, such as 'unfair' international competition or strategic considerations, which can result in exceptions to the policy of non-intervention then the assumption is that each case will have to be considered on its merits. Thus a policy of non-intervention, even if precisely formulated, which the Conservative policy was not, requires a continuous set of choices not to intervene rather than simply a proclamation of general intent. The fact that a general policy of non-intervention does not shelter the government from having to make detailed decisions does not appear to have been fully grasped by some of the ministers involved, even after the event. Thus Nicholas Ridley has said of the attitude of the Conservatives in 1970: 'So that was, I think, how we entered the election, with a conviction that the Labour government were wrong to bale out lame ducks, but without any sort of carefully worked out strategy. Indeed, one doesn't need a detailed policy if one holds those views'.⁶ In the absence of established criteria for exceptional treatment it was inevitable that the government would be affected by political pressures in individual cases. A general policy of non-intervention cannot depoliticise the choices about individual firms which the government still has to make.

6.2 IMPLEMENTING NON-INTERVENTION

6.2.1 Introduction

Policy towards shipbuilding in the first year of the Conservative

5. Times, 9 October 1970.

6. Nicholas Ridley, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Upper Clyde Shipbuilders'. BBC Television, 11 July 1976.

government seemed, in terms of declared policy, to be, if anything, a move towards the more general approach of non-intervention, and away from the special treatment for shipbuilding implied in some statements. However, in each of the two cases about which the government had to take decisions in its first few months of office it did in practice intervene by giving financial assistance. On assuming office, the Conservative government undertook a 'review' of the shipbuilding industry. No statement was made for some months, though the government did exercise its power under the Shipbuilding Industry Act 1967 to extend the life of the SIB for a year to the end of 1971. Before it did make its statement of policy on the shipbuilding as a whole, the government had already become involved in two yards.

6.2.2 UCS

The direct government loan to UCS of £7m announced in December 1969 merely postponed the time when the survival of the company was again in doubt. According to Mr. Hepper, during the summer of 1970 the company suffered labour disruptions, go-slows and general troubles which resulted in a loss of budgeted income of about £5m, and in the autumn of 1970 the company became very worried about its viability.⁷ Indeed, in July 1970 the company was insolvent.⁸ On 14 October 1970, Mr. Mackenzie, the SIB director on the UCS board, told the then newly formed Department of Trade and Industry (DTI) that he doubted whether the company could be profitable in the long-term and therefore whether it should continue trading.⁹ Following legal advice, the DTI decided not to authorise Section 7 guarantees on a number of ships to be built by UCS which had already received SIB recommendations.¹⁰ The reasons

7. HC 347-II, Session 1971-2, Q.2110.

8. HC 447, Session 1971-2, p.418.

9. HC Deb., 15 July 1971, written answers cols. 157-8.

10. The relevant departmental minutes and correspondence are included in HC 447, Session 1971-2, pp.415-19.

for this decision were:

(a) that there was no real prospect of the ship being completed and that to give a guarantee would not implement the policy of the Shipbuilding Industry Act 1967;

(b) the change in circumstances was so great that the existing SIB recommendation could not be regarded as still being in effect;

(c) to give a guarantee might be regarded as infringing Section 332 of the Companies Act 1948 (this makes it a criminal offence to be knowingly a party to fraudulent trading - which includes continuing to trade and to incur debts when there is no reasonable prospect of the creditors ever receiving payment of those debts).

Subsequent discussion by civil servants made it seem doubtful whether the giving of a guarantee under a statutory scheme would infringe Section 332, which does not in any case apply to the Crown, but the DTI considered that point (a) alone would make the giving of guarantees illegal.

According to Mr. Hepper, the company discovered through its customers that the guarantees were not being signed up.¹¹ On 27 November the UCS board met Mr. Nicholas Ridley, who had by then become Parliamentary Under-Secretary of State for Industry. Mr. Ridley told Mr. Hepper that, until the government was satisfied about the future viability of the company, new credit guarantees could not be issued to shipowners.¹² Three weeks later, Mr. Hepper gave Mr. Ridley a financial report which stated that in the opinion of the UCS board the company had a reasonable prospect of success and was justified in continuing to trade; the report included the assumption that there

11. HC 347-II, Session 1971-2, Q.2111.

12. HC Deb., 15 July 1971, written answers cols. 157-9.

could be a capital reconstruction involving the writing down of loans. However, on 17 December Mr. John Davies told UCS board members that the financial statement had not sufficiently reassured the government about the company's financial viability to enable it to resume issuing guarantees; there would have to be another £3m in the balance sheet. By 23 December members of the UCS board were able to report that some shipowner customers were prepared in principle to pay increased prices provided UCS indebtedness to the government was substantially reduced. Mr. Davies agreed to consider some modification of the capital structure.

Over Christmas and New Year UCS managed to raise £2.75m from its customers. However, on 14 January Mr. Hepper told Mr. Davies that it would be wrong to accept contributions from shipowners until the separation of Yarrow (Shipbuilders) from UCS had been accomplished. Yarrow had by this time announced that, in contrast to the profits earlier forecast, a loss of £4m was now envisaged. UCS therefore tried to negotiate with Yarrow to complete the agreement signed in the summer of 1970 to conclude the break between the two companies (see section 5.3.2). UCS took legal advice and were told that the agreement was valid and would be upheld in the courts, but since time was short UCS was obliged to tell Mr. Davies that it could not make the break with Yarrow and therefore could not receive the money from its customers. However, Mr. Davies met the chairman of Yarrow on 2 February and reached agreement about hiving-off arrangements. The following day Mr. Davies told Mr. Hepper of the agreement over Yarrow and also that credit guarantees would be resumed in two to three weeks. (The circumstances surrounding the break between UCS and Yarrow were the subject of a special report prepared by Professor Flint for the UCS creditors; at the time of writing in November 1976 this report was

still not published, but it is believed to be critical of the arrangements).

Mr. Davies was able to make a statement to the House of Commons about Yarrow (Shipbuilders) on 11 February.¹³ 'In view of the importance of Yarrow (Shipbuilders) for the present orders and future programme of the Royal Navy', the Ministry of Defence was to make a loan to Yarrow towards meeting the company's requirements for working capital (i.e. its anticipated losses). These requirements were estimated at the time to be a maximum of about £4½m over the next three years, an estimate which for once has turned out to be accurate. There was also to be a capital reconstruction of UCS, though details still had to be worked out. The government would agree to a substantial writing down of equity and a writing down and conversion of fixed-interest state loans into a smaller equity holding. The aim would be to maintain a total public holding of 48% of the UCS voting equity, but with an increased dividend entitlement after the capital reconstruction. No new funds were to be provided to UCS.

The issuing of credit guarantees for UCS orders was resumed on 19 February on completion of the arrangements for increased contributions from shipowners. The Commons statement by Mr. Davies on 11 February had not mentioned the suspension of guarantees at all. The specialist press had got wind of the delays by January 1971,¹⁴ but MPs had no knowledge of the suspension, as was shown by the large number of Parliamentary Questions on the subject put down following the liquidation of UCS. The suspension of guarantees itself made UCS's cash flow more difficult, and had the suspension been general knowledge the difficulty would have been increased, since suppliers would have been unwilling to extend credit.

The finalising of arrangements to hive off Yarrow and resume credit guarantees occurred at the same time as the decision to nationalise

13. HC Deb., 11 February 1971, cols. 808-12.

14. See Shipbuilding and Shipping Record, 22 January 1971, p.4.

the aerospace parts of Rolls Royce. Had the government allowed UCS to go into liquidation at the same time it would have had two very contentious industrial issues to cope with at the same time, and its policy would have lost even more credibility. In providing aid to Yarrow, however, the government tried to play down the issues of industrial policy and emphasised the strategic value of Yarrow; this was underlined by channelling the aid through the Ministry of Defence rather than the DTI. The detailed account of this episode has amply illustrated the assertion made at the beginning of the chapter that a general commitment to non-intervention does not remove the need to examine the problems of each firm as they arise, nor insulate ministers from the need to take part in detailed negotiations about the future of individual companies.

6.2.3 Harland and Wolff

In December 1970 the Northern Ireland government announced an interim rescue plan for the Harland and Wolff shipyard after it became clear that even the losses expected the previous April, when the SIB allocated a grant of £3.5m, would be greatly exceeded (see section 5.3.4). The NI government was to take control for a maximum period ^{of} three months, during which it would guarantee overdraft facilities for the yard, and it appointed a director to the Harland and Wolff board and a financial controller. The interim period was to provide time for the consideration of four possible rescue plans. The NI government formulated proposals based on retention of control by the existing company, and at the end of April 1971 Sir John Eden, the UK Minister for Industry, announced that the UK government had accepted these proposals. Both governments warned Harland and Wolff that there would be no question of further financial aid being forthcoming from either of

them should the yard once again find itself in difficulties.

The offer of assistance as formulated and notified to Harland and Wolff in June 1971 included £4m for a 47.6% NI government shareholding, the waiving of unpaid interest of £1.255m on the £3.5m loan made in 1966, and a grant to be determined by the NI Ministry of Commerce in accordance with an assessment of actual and prospective losses by an accountant appointed by the Ministry. This grant was to be related to the expected increase in losses over the estimate of £10m made in October 1970 (itself an increase over the estimate made in April 1970), and estimates in July 1971 put this sum in the region of £2-3m. However, the final estimate given to the Ministry of Commerce in January 1972 was about £14m; this sum was paid over to Harland and Wolff by October 1972. The Ministry of Commerce was later criticised by the UK Public Accounts Committee which felt that the Ministry should have 'informed themselves with greater certainty on the relevant matters' before entering into the June 1971 commitment.¹⁵ The Committee also criticised the lack of any clawback provision in case losses were less than forecast, a criticism which became rather academic, as Harland and Wolff's losses continued to accumulate.

6.2.4 Statements of policy and policy in practice

Delay in announcing a definitive policy provoked criticism, since the aid to Harland and Wolff and Yarrow caused confusion about the government's intentions for the industry as a whole.¹⁶ The long-awaited policy statement was made during the second reading debate on the

15. HC 308, Session 1972-3, paras. 7-12.

16. See, for example, the Business News leader in The Times of 15 April 1971 on 'Politics and the Shipyards', which contained the prophetic remark that: 'If the Government believe that Britain should have a shipbuilding industry, it seems almost inevitable that before very long Whitehall will have to mount a financial rescue operation in another part of the industry'.

Shipbuilding Industry Bill 1971, which raised the ceiling on credit guarantees for loans to shipowners from £400m to £700m.¹⁷ The previous government had introduced a Bill to raise the limit to £600m but this had been lost with the general election of June 1970. By the time the Conservative Bill could be introduced the sum required had increased further.

In introducing the Bill, Sir John Eden said that the government did not see a case for 'singling out the shipbuilding industry as the continued recipient of a special payout from the taxpayer which can only weaken morale and lessen the incentives on management and employees alike to learn to operate competitively in the world market'. However, since shipbuilding lacked the tariff protection enjoyed by other industries 'shipbuilders' relief', which was equivalent to 2% of the contract price of a ship, would be continued, as would the clawback of import duty on components. In addition, it had already been announced that there would be a relaxation of the rule about the import content of ships qualifying for credit guarantees so that shipbuilders could use imported steel where supplies could not be obtained on competitive terms from the domestic market - that is from British Steel, a nationalised industry. Apart from the home credit scheme with which the bill itself dealt, the government did not consider that there was any justification on economic grounds for further special assistance to the shipbuilding industry as such, apart from assistance available to all industries in development areas. The approval by the UK government of the proposals of the NI government for the future of Harland and Wolff were stated to be 'in line with the policy of giving the industry an opportunity to readjust', and the assistance to Yarrow was said to be to safeguard the present orders and future programme of the Royal Navy.

17. HC Deb., 22 April 1971, cols. 1381-468.

Sir John's statement about there being no further special assistance for shipbuilding was reiterated by Mr. John Davies in May 1971 on a visit to the Clyde for the opening of Yarrow's new covered yard - built with assistance from public funds! He said that the time had almost come for shipbuilding to assume total responsibility for its own future: 'Perhaps it may be felt that the recovery process is as yet too insecure to contemplate drawing away the props, but I do not believe that to be the case'.¹⁸ This was less than a month before the liquidation of UCS!

Thus if we take 'policy' to be the government's declared attitude we would conclude that the Conservative government was still committed to non-intervention. If, however, we take policy as what governments actually do, we find that in both the yards where the government had to take decisions it intervened on a fairly substantial scale. On both occasions the government declared that it would not be prepared to put any further funds into the companies concerned, but as we shall see below, in both cases the government did later go back on this stance. The reconciliation between declared policy and policy in practice only came about by altering declared policy to fit in with what the government was doing in practice.

6.3 THE COLLAPSE OF UCS

6.3.1 The final weeks

This section does not attempt to give a blow-by-blow account of the collapse of UCS and the subsequent events, culminating in massive government assistance to keep all four yards open. However, in the continued absence of a definitive account - indeed, because of the existence of general misconceptions about what did take place - it will

18. Shipbuilding and Shipping Record, 21 May 1971, p.3.

be necessary to outline the main developments.¹⁹ The history of UCS up to June 1970 was discussed in sections 5.2.2 and 5.3.2, and developments in the first few months of the new Conservative administration were outlined above in section 6.2.2.

Despite the government's concern about UCS over the winter months, there was no further meeting between ministers and representatives of the company after Mr. Hepper's meeting with Mr. Davies on 3 February 1971 until Mr. Davies saw Mr. Hepper immediately prior to the company's liquidation. However, the company continued to provide information to the DTI, though there were delays in this information becoming available. One of the main reasons why the government allowed UCS to go into liquidation was its lack of confidence in the company's ability to produce accurate and up-to-date information. On 5 May 1971, the accountants considering the capital reconstruction of UCS which had been announced in February reported to Mr. Davies that they were awaiting essential information from the company to enable them to report further.²⁰ Two days later the UCS board commissioned new cash and profit forecasts and Mr. Davies was notified that the reconstruction proposals were held up awaiting this new forecast. On 8 June UCS provided information on the position disclosed by this review; this showed that by August 1971 the company would have a net asset deficiency of £5½m and that cash was available to pay wages only up to 18 June.

19. The fullest and most balanced account of UCS currently available is McGill, 1972, by a Scottish journalist. For an account by another journalist, who was sympathetic to the 'work in', see Buchan, 1972, and for a Communist view see Thompson and Hart, 1972. The UCS 'work in' is also referred to in a number of other books and pamphlets too numerous to mention here.

20. HC Deb., 15 July 1971, written answers col. 159.

On Wednesday, 9 June, Mr. Hepper met Mr. Davies and gave him further details of the company's finances; Mr. Hepper indicated that the company could be saved only by an immediate injection of £5m to £6m, and this would have to be substantially in the form of equity or grant.²¹ Otherwise the unions would be told of the situation on the following day, and on the day after that, Friday, the company would petition for the appointment of a provisional liquidator. Mr. Davies asked Mr. Hepper to seek the UCS board's agreement to delay taking this action, even for a few days, so that the government could have more time to examine the position fully, and gave him an assurance that the government would guarantee the payment of wages for at least a further week. However, when Mr. Hepper saw Mr. Davies again on Sunday, 13 June, he told him that it now seemed unlikely that funds were available even to pay the current week's wages and unless the required injection of funds could be guaranteed on the following day the UCS board felt it had no alternative but to petition for a provisional liquidator.

6.3.2 The liquidation announcement

On the following day, 14 June, Mr. Davies announced in the Commons the government's decision to allow UCS to go into liquidation.²² The UCS board had told him that they still had hopes of attaining viability in the future, but they were unable to forecast when the existing excess of liabilities over assets would be reversed. (The UCS liquidator estimated soon afterwards that there was an excess of total liabilities over estimated realisable assets of over £28m). The government had decided 'that nobody's interest will be served by making the injection of funds into the company as it now stands'.²³

21. HC Deb., 14 June 1971, cols. 31-4.

22. HC Deb., 14 June 1971, cols. 31-4.

23. Emphasis added.

'On the other hand', Mr. Davies went on, 'it is clearly right that without prejudice to the creditors' interests, the Government should seek to ensure the minimum dislocation of current production and the preservation of as much employment as possible and as many of those assets as can be expected to have a viable and prosperous future'.

He proposed to seek the liquidator's cooperation in bringing about a reconstruction and would consult him to determine what funds would be necessary to enable him in carrying out his role as liquidator to assist the government in its objectives. Mr. Davies also proposed to appoint a small group of experts to assist him in considering the best action to achieve a reconstruction.

The government's decision met with an immediate outcry from Labour MPs, who demanded a debate; the government agreed to an adjournment debate on the following day.²⁴ Mr. Davies emerged from the debate very badly, since Mr. Benn pointed out that Mr. Davies had misquoted him on the previous day, implying that a statement Mr. Benn had made in December 1969 had been about UCS when it had in fact been about Beagle Aircraft.

In response to the liquidation announcement a campaign to save the yards quickly developed. Two days after Mr. Davies' statement in the Commons a trainload of shop stewards, councillors and trade unionists lobbied Parliament, and a delegation met Mr. Heath at Downing Street. On Monday, 21 June, a delegation from the Scottish TUC met Mr. Heath and Mr. Davies; on 23 June there was a strike of a large number of workers in Clydeside, and a march was held in Glasgow.

The SIB was still in existence at the time of the UCS liquidation,

24. HC Deb., 15 June 1971, cols. 233-362.

but it was by then clearly a 'lame duck' itself, with only another six months of formal existence left. The SIB had washed its hands of UCS nearly two years earlier and in any case, had no money left to give in grants. The UCS liquidation came as a surprise to the SIB as much as to the government. In a draft of an article by Sir William Swallow which appeared in the Shipbuilding and Shipping Record on 9 July 1971 the underlined words in the following sentence were scored out: 'Accordingly, some of the early loans were in the nature of first aid rather than for long-term development, for example, Upper Clyde Shipbuilders, which is now showing signs of recovering from a very difficult situation.'²⁵ Far from being in a position to provide advance warning to the government of problems in the shipbuilding industry, the SIB itself had an unrealistic picture of the state of one of the main companies in the industry.

To hold the position while it considered the possibilities of reconstructing shipbuilding on the upper Clyde, the government agreed at the end of June to provide funds to enable the liquidator to keep all the employees on the payroll until 6 August, at an estimated cost of £3m.

6.3.3 The report of the 'four wise men'

Initially three people were appointed to the 'small group of expert people' referred to by Mr. Davies when he announced the government's decision to allow UCS to go into liquidation. They were Mr. Alexander McDonald, chairman of Distillers, Sir Alexander Glen from the shipping industry, and Mr. David McDonald, a director of Hill Samuel. To these was later added Lord Robens, and the group became generally known as the 'four wise men'.

25. Draft supplied by Sir William Swallow. The published version appeared in Shipbuilding and Shipping Record, 9 July 1971.

The Report of the Advisory Group was published on 29 July 1971.²⁶ The report was very short - only three pages - and it did not contain any detailed analysis. After listing causes and circumstances of the failure of UCS the report concluded that 'any continuation of Upper Clyde shipbuilders in its present form would be wholly unjustified and, indeed, could cause serious and more widespread damage'. In their recommendations the members of the group said that they had 'tried to make judgements primarily on grounds of likely commercial viability both in the short and longer term, but in view of the Government's share of responsibility, we have also given weight to social considerations which we believe Government in this case must observe'. The group recommended:

- (1) that an end should be made to UCS, while retaining legal and financial flexibility to help achieve other objectives;
- (2) that a successor company should be established at Govan/Linthouse, and that Clydebank and Scotstoun should be disposed of as soon as possible by the liquidator;
- (3) that the existing shipbuilding programme should be concentrated so far as practicable, and as urgently as possible, on the Govan yard;
- (4) that every assistance should be given by the government and the local authorities in assisting redeployment of redundant workers.

An essential contribution to improved productivity at Govan would be a commitment to accepting changes in working practices, including in due course a change to two-shift daily working.

The government announced its acceptance of the conclusions of the advisory group on the same day as they were published.²⁷

26. HC 544, Session 1970-1. For a detailed rejection of the report by Mr. Hepper, see HC 347-II, Session 1971-2, Q.2122-4.
27. HC Deb., 29 July 1971, cols. 791-800.

If the conditions of first class management and of satisfactory undertakings by the unions about working conditions were met, the government believed that private capital should be forthcoming, particularly from Scottish sources. (In the end the government had to put in all the capital). The government would itself be ready to provide some of the initial capital. Mr. Davies estimated that the new company would employ about 2,500; about another 1,000 should be able to find work with other shipbuilders on the Clyde and some might be retained in work by other interests acquiring UCS facilities from the liquidator. According to Mr. Davies' estimate, only about 400 men would become redundant immediately, although others would do so at intervals as ships were completed. To ensure that meanwhile the liquidator had the necessary working capital, the government would allow him to retain the money already advanced. If further funds were needed then, provided that there had been satisfactory progress in fulfilling the conditions, further funds would be made available from the Consolidated Fund. A debate was held on this statement in the Commons on the following Monday, but this was overshadowed by events on the Clyde itself.

6.3.4 The myth of the 'work in'

In response to the government statement accepting the report of the advisory group, shipbuilding workers took effective control of the entrance gates at the Clydebank yard and held a mass meeting. News reporters were let in to the meeting. The joint shop stewards coordinating committee said that the management (i.e. the liquidator) had refused to allow a press conference, so they had 'taken over' the yard and let the press in as the first sign that they were the masters now. This action in admitting the press was more than merely symbolic:

media coverage of the 'takeover' and 'work in' was extensive, vital to the campaign to keep the yards open, and, in retrospect, rather misleading. The Times headline on 31 July was 'Workers seize control of shipyard on the Clyde'.²⁸

James Reid, the main spokesman of the coordinating committee, told the mass meeting: 'We are not going on strike, we are not even having a sit in. We do not recognise that there should be any redundancies and we are going to "work-in".'²⁹ The atmosphere of the 'work in', the hagiography of its leaders, and the meetings, demonstrations and other support for it are described extensively elsewhere.³⁰ The concern here is to assess the extent of the 'work in', what it 'controlled' in practice, and how it influenced government decisions about the future of the yards.

Contrary to the general impression created at the time, the number of men actually 'working in' was relatively small, and at no time did the workers actually take on the responsibility for running the yards. In his report to creditors on the first year since UCS went into liquidation, the liquidator remarked:

'There has been widespread misconception of the nature and extent of the "UCS work in", often misquoted as a precedent for quite different industrial action of a totally obstructive or "sit in" nature. A number of creditors and others appear to have been given the impression that the whole operation of the shipyards has depended on the "work in", and that the complex legal, financial, technical and practical problems of building ships, the employment of a large number of employees, and the provision

28. Times, 31 July 1971.

29. Buchan, 1972, p.14.

30. See Buchan, 1972; Thompson and Hart, 1972; McGill, 1973; and, with appropriate caution, the newspapers for the period.

of and payment for goods and services, has in some way been organised by committee'.³¹

In fact, all such matters remained the responsibility of the liquidator.

Table 6.1 Estimate by UCS liquidator of approximate numbers involved in 'work in'.

Date	Total	'Work in' no. expressed as % of	
		No. retained in employment	No. made redundant ¹
23 August 1971	121	1.5	69
6 September 1971	377	5.0	52
5 October 1971	390	5.2	48
2 November 1971	343	4.7	37
7 December 1971	263	3.7	27
6 January 1972	265	3.7	26
1 February 1972	246	3.5	24
7 March 1972	237	3.4	21
4 April 1972	220	3.2	19
2 May 1972	191	2.8	16
6 June 1972	177	2.6	14

Source: UCS (In Liquidation), 1972, appendix IV, p.18. The figures were taken from a weekly assessment of numbers prepared by management in connection with insurance cover, similar to employers' liability insurance cover, designed to protect the liquidator in the event of a claim arising from an accident caused by or to someone involved in the 'work in'.

Note:1. Number made redundant excludes normal retirements, those leaving of their own accord, dismissals for misconduct, and deaths.

The liquidator's estimate of the numbers involved in the 'work in' is shown in table 6.1. James Reid has accepted that there were never more than 400 workers actually 'working in' at any time.³² The main reason why the 'work in' numbers were fairly small was that the number

31. UCS (In Liquidation), 1972, p.11.

32. James Reid, interviewed in Open University programme: Systems Behaviour Course: 'Shipbuilding II'. BBC Television, 5 October 1975.

made redundant turned out to be lower than seemed certain after the government statement based on the report of the 'four wise men'. This was largely a consequence of the government's willingness to provide funds to the liquidator while it explored ways of keeping the yards open. However, as can be seen from table 6.1, the proportion of those made redundant who stayed on at the yards steadily declined. The amount of work actually done by those 'working in' has also been exaggerated. The liquidator has claimed that the original intention that those involved in the 'work in' should continue to work was observed for only a short time in most departments.³³ An account sympathetic to the 'work in' states that 'when a work-in man and an employee of the Liquidator shared a job, the total amount would not exceed the amount expected from the employee'.³⁴ This illustrated a basic weakness of the 'work in' concept: if the men who had been made redundant had continued to work they would have been working for the liquidator without being paid by him.

The control which the workforce as a whole exercised over the yards was in effect (1) a potential veto on the operation of the yards by the refusal to carry out specific tasks or by withdrawing labour - as any workforce can do in any company; (2) a potential (and on occasion actually exercised) veto on who could enter the yards; (3) a potential veto on the removal of any material from the yards. In practice, after initial mutual suspicions had been dissolved, the workforce and the liquidator found that they had a common interest in maintaining the yards in operation: the workforce because this maximised the numbers kept in employment, and the liquidator because he could maximise the

33. UCS (In Liquidation), 1972, p.11.

34. Thompson and Hart, 1972, p.60.

funds available for distribution to creditors if he could sell the yards as going concerns rather than at their break-up value. The objectives of both could be met if the government continued to give funds to the liquidator to keep men surplus to the liquidator's requirements employed while possible ways of keeping the yards open were explored. (The ordinary creditors of UCS have never been repaid the £7.6m they were owed. The government has refused to accept a moral or legal obligation to repay UCS's debts. Despite an earlier rebuff, it was proposed in October 1976 to refer the matter again to the Ombudsman).

Mistaken impressions about the nature of the 'work in' persist, even in reputable academic circles; for example, an Open University programme on UCS stated without qualification that 'on July 30th the workers took control of the yards'.³⁵ This persistence of misconceptions about what happened at UCS justifies Sykes' description of the UCS 'work in' as 'the most successful experiment in myth-building of recent years.'³⁶ To reject the mythological aspects of the 'work in' as representing a truthful description of what occurred is not to deny its political effectiveness. The government, although expecting a militant reaction, particularly from Clydebank, had not foreseen the form it would take.³⁷ The campaign associated with the 'work in' had an important influence on the government's willingness to make interim

35. Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Upper Clyde Shipbuilders'. BBC Television, 11 July 1976. This statement is in contrast to the well-balanced presentation of the UCS 'work in' in another Open University programme: Systems Behaviour Course: 'Shipbuilding II'. BBC Television, 5 October 1975.

36. Sykes, 1973, p.7.

37. John Davies, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Upper Clyde Shipbuilders'. BBC Television, 11 July 1976.

payments to the liquidator and ultimately to include an extra yard in the government-owned successor to UCS. Indirectly, the campaign contributed to the general reappraisal of industrial policy which followed the UCS debacle.

6.3.5 The government retreats

On 23 September 1971 it was announced that the vehicle for government support for the UCS yards would be Govan Shipbuilders, with Hugh Stenhouse as chairman and Archibald Gilchrist as managing director. Mr. Davies maintained that the company was formed by private interests, with private resources, but the truth of the matter is that Mr. Stenhouse was 'persuaded' to take on the job³⁸ and that apart from the initial two £1 shares all the company's resources came from the government.

At first, the UCS shop stewards refused to enter discussions with Mr. Stenhouse and Mr. Gilchrist except on the basis that all four divisions of UCS were to be acquired by Govan Shipbuilders. However, they eventually agreed to do so as the result of negotiations in which Mr. Dan McGarvey, the boilermakers' leader, played a prominent role. This reflected the increasing role played by the national union leadership in negotiations about the future of the yards after the first few weeks of the 'work in'. The nature of the 'work in' organisation was not suited to taking an active role in discussions involving new arrangements, since it sought essentially to preserve the status quo.

At the end of talks on 29 September involving UCS shop stewards, CSEU officials and Mr. Stenhouse and Mr. Gilchrist it was stated that Scotstoun would be included in the feasibility study being made of Govan and Linthouse. The unions officially recommended a policy of cooperation to the shop stewards. Following this, a meeting was held on 12 October between John Davies and Sir John Eden of the DTI and

38. UCS (In Liquidation), 1972.

Dan McGarvey and Jack Service of the CSEU.³⁹ At this meeting the CSEU representatives gave assurances about the timely and efficient delivery of orders needed to enable Govan Shipbuilders to be established, providing the government was prepared to give the necessary guarantees to the shipowners concerned and the liquidator was prepared to set in hand work on those orders. As soon as these arrangements had been made, the CSEU was prepared to enter immediately into discussions with Govan Shipbuilders about working practices, wage rates and other matters. These negotiations would cover the operation of the Govan and Linthouse yards and would be extended to cover Scotstoun as well, providing the feasibility study commissioned by the government showed the inclusion of the Scotstoun yard to be in the economic interest of the whole project. In return, Mr. Davies would seek to reach agreement with the shipowners about the guarantees required to secure the confirmation of these orders. It was also agreed that the government and the CSEU would make every effort to encourage a purchaser for the Clydebank yard and that such a purchaser would be eligible for substantial financial assistance under the Local Employment Acts.

This agreement can be said to mark the time of the government's retreat from any attempt to withdraw from involvement in shipbuilding on the upper Clyde. While the government had all along been prepared to put in some money to enable a new two-yard company to get started, this agreement effectively constituted an undertaking by the government to commit very sizeable sums of money to keeping most of the UCS workforce employed at their existing workplaces. In return for a commitment by the government to be actively involved in seeking to secure

39. A record of this meeting is contained in HC Deb., 20 October 1971, cols. 734-5.

employment at all four yards, the original demand that the four yards should be kept under a single shipbuilding management was dropped by the unions.

The government continued to give interim assistance to the yards. At the end of November the government agreed to meet the extra cost over and above the contract price for four ships for Irish Shipping Ltd. to enable work on these to be started; it was estimated that about £10m would be required for this purpose by the liquidator. The government also agreed to refund all progress payments made by Irish Shipping after the date of the liquidation if delivery of the ships was delayed beyond certain dates. Up to £1½m was also to be made available to the liquidator for working capital. Similarly, £0.5m was set aside in January 1972 to compensate for the extra cost of building a dredger for the Brazilian government. In all, £10m was paid to the liquidator by the government.

6.3.6 The Hill Samuel Report

Following the death of Hugh Stenhouse in November 1971, Lord Strathalmond was appointed chairman of Govan Shipbuilders. There were delays in Govan Shipbuilders' arrangements because of the unwillingness of trade union representatives to conclude agreements until a separate future for the Clydebank yard had been determined (see section 6.3.7), but with the completion of the feasibility study of the future of Govan Shipbuilders came a commitment by the government to provide the necessary finance for the new company. This feasibility study was carried out by Hill Samuel & Co. and was published in March 1972.⁴⁰ The report showed that both Govan plus Linthouse plus Scotstoun and Govan plus Linthouse would expect to make considerable losses in the

first three years and would require substantial investment. The report's findings assumed that the market for ships was bouyant in the fourth year of the company's operation and that there would be huge increases in productivity (to reach 220% of the 1971 figure by the fifth year of the company's operation). The assumptions about the future market for ships turned out to be wrong as a result of the post 1973 slump. That the report's assumptions about future levels of performance were feasible was shown by the experience of foreign competitors; that they were unlikely to be achieved was suggested by past performance in upper Clyde yards. In conformity with previous exscalations Govan Shipbuilders' need for government funds turned out greatly to exceed the Hill Samuel estimates (see section 7.3.3).

Any lingering hopes that the scale of government involvement could be accompanied by private participation were dashed by the report's strong recommendation that the company should be wholly owned by the government. Funds would have to be provided by the government for fixed and working capital and to cover losses in the early years. The report made clear the political nature of the operation by its conclusion:

'In our view there can be no question of the establishment of Govan Shipbuilders, in accordance with this Report, being a proposition which could attract commercial support. The decision whether or not to establish it must therefore, be judged on other considerations'.

In an employment debate in the Commons shortly before the publication of the report, John Davies announced that, subject to some further examination of the plans, discussion of the exact sums of money required and the reaching of satisfactory agreements with the unions, he was prepared to propose the legislation necessary to carry forward

the project, which would include Scotstoun.⁴¹ £17m would be needed for losses in the first three years and £18m for investment and working capital. Mr. Davies praised the helpful role of Mr. McGarvey, who as good as returned the compliment by saying that after studying the reports on UCS he felt that the government had done the best they could with the situation. Mr. Jimmy Reid was also very pleased with the government's statement, though he made it clear that the 'work in' would end only when the future of all four yards and the entire workforce was settled.

In order to keep the Scotstoun yard open until Govan Shipbuilders took over, the government provided finance to enable work to start on two ships. Govan Shipbuilders finally took over the yards on 18 September 1972, having paid the liquidator £2.5m, though not until last-minute negotiations finally secured acceptance of the labour agreement by the boilermakers.

6.3.7 The Clydebank yard

The government's announcement of its willingness to put £35m into Govan Shipbuilders secured the future of three of the yards, but the fate of the Clydebank yard remained to be resolved. Following enquiries from Mr. A.D. Kelly and Breaksea Tankships Inc., which came to nothing, the Marathon Manufacturing Company of Houston, Texas, expressed interest in acquiring the Clydebank yard. Mr. McGarvey and Mr. Service of the CSEU visited Houston in January 1972 and discussed the company's interest in acquiring the yard for building oil rigs. Later in January Mr. Harbin, president of Marathon Manufacturing, and other Marathon representatives visited Clydebank and met DTI officials and representatives of the

41. HC Deb., 28 February 1972, cols. 51-3.

staff, shop stewards and trade union officials. It was made clear that Marathon's interest depended on a satisfactory agreement on wage rates and working practices and on the extent of government financial assistance under the Local Employment Acts. Negotiations between Marathon and the DTI continued in March and April in both London and Houston. In early May representatives of Marathon came to Clydebank to start work on the drafting of an agreement with the liquidator, which provided for the sale of the Clydebank yard for £1.5m. Marathon officially took over the yard on 8 August, though there was a subsequent dispute over the level of redundancies which was only resolved when Marathon agreed to accelerate its programme of building oil rigs and the reconstruction of the yard. Mr. Harbin revealed that Marathon envisaged an expenditure of about £12m; a £6m loan repayable over seven years had been provided by the DTI, in addition to other financial aid granted under the new 1972 Industry Act.

6.3.8 The reasons for the reversal of policy

While the massive funds allocated to the upper Clyde yards following the collapse of UCS clearly marked a change of direction for the government, it would be inappropriate to analyse this change in terms of a clear change in stated objectives leading to a change in the amount of funds which it was appropriate to allocate. Rather, the change in objectives was wrapped up in the particular issue facing the government.⁴² The further rescue of the upper Clyde yards and assistance given to other yards in the first two years of the Conservative government suggests that government policy in practice can more appropriately be analysed in terms of a series of individual decisions which may have an underlying pattern, rather than individual decisions being the detailed implementation of a stated general policy.

42. Cf. Lindblom, 1959.

It is therefore worth examining the reasons for the decisions taken by the government about upper Clyde - as well as criticising the adequacy of some of the justifications which have been offered. John Davies told the Trade and Industry Sub-Committee of the Expenditure Committee in March 1972 that there were two reasons why it was not desirable that shipbuilding on the upper Clyde should disappear: the employment it gave and the future growth potential of the industry in terms of worldwide demand.⁴³ He felt that it was quite impossible to quantify the proportionate weight of these two reasons. However, the continued employment of the workers in the Clyde yards alone is hardly sufficient to justify the commitment of the huge sums involved (around £57m committed in 1971-2 without allowing for subsequent increases). On the assumption that many of the workers would have managed to get other jobs, it would arguably have been cheaper to have provided new alternative jobs outside shipbuilding, or possibly even to pay them not to build ships!

The Conservatives' non-intervention approach did not seem to have taken into account the regional, social and economic impact of the closure of large firms. This issue achieved added salience on Clydeside, when unemployment in the Glasgow area in June 1971 was 4.6% (unadjusted) well above the UK average of 2.5%, and rose to 5.7% compared to 2.8% for the UK by December 1971. However, despite some impressions to the contrary at the time, the case for rescuing all the yards because of any catastrophic effect their closure would have had on the regional economy is also fairly weak. There are two issues involved here: (1) the regional economic impact of shipbuilding is probably less than was assumed in some statements; (2) other ship-

43. HC 347-II, Session 1971-2, Q.3000, 3055-60.

yards on the Clyde were expanding. No firm figures are available for the regional decline in employment by suppliers arising from a decline in shipbuilding. Alexander suggests a figure of about 5,500 jobs lost in West Central Scotland manufacturing industry between 1959 and 1968 through the loss of direct and indirect purchases by shipbuilding, shiprepairing and marine engineering arising from a fall in jobs in those industries in West Central Scotland in the same period of 18,991.⁴⁴ He also quotes a simple employment multiplier for shipbuilding within West Central Scotland of 1.202 based on 1968 data collected by the Netherlands Economics Institute.

These figures relate to the region as a whole and provide only a rough guide to the impact of the closure of particular yards. In the absence of any official figures, the temptation is for politicians to use the figures which suit their case. For example, when UCS went into liquidation in 1971, Mr. Wedgwood Benn quoted figures of '7,000 men directly involved and 20,000 others whose employment depends on UCS'.⁴⁵ Academics also have to work in the dark: Professor D. MacKay in a submission to the Scottish TUC after the liquidation of UCS suggested that 5,000 redundancies at UCS might result in total job losses (i.e. including UCS) of 11,000 in South-West Scotland and 16,000 in Great Britain.⁴⁶ However, the analyses quoted in the paragraph above suggest that both these estimates are far too high. Professor Alexander, who as well as being an academic studying the industry has served on the boards of Fairfields and UCS and has been chairman of Govan Shipbuilders, suggests that 'the economic case for special support for shipbuilding in a regional policy for WCS (West Central Scotland) is not a strong one. This view contrasts with the

44. Alexander, 1973, using figures collected for the West Central Scotland Plan, 1974.

45. HC Deb., 14 June 1971, col. 33.

46. STUC, 1972, p.41.

impression gained when UCS was under threat, that a majority of economists favoured its survival, at least on wider cost-benefit grounds'.⁴⁷ However, Professor Alexander does point out that a major factor affecting that view was the absence of alternative employment, or of any contingency plans to produce alternative employment.

If we are to consider the regional impact of the closure of the UCS yards, we must also consider what was happening elsewhere on the Clyde. If the Marathon yard is included, there was no overall decline in shipbuilding employment on the Clyde between 1965 and 1972, despite the considerable redundancies which did occur at UCS. This was because of job increases at Scott Lithgow and Yarrow. Since its formation in 1969 Scott Lithgow has been growing, and the group has frequently suffered labour shortages; attempts to recruit shipbuilding workers from the upper Clyde met with little success, and the bulk of the increased employment has gone to local newly trained workers. Of a sample of about 2,000 men made redundant from UCS in 1969-70, only 6% had their first jobs on the lower Clyde.⁴⁸ One of the ironies of the UCS affair was that a few days before UCS went into liquidation Scott Lithgow announced that it would need to take on an additional 1,700 men, including 1,000 steelworkers, if its new facilities were to be fully utilised. We can see, therefore, that the issue is less one of regional aggregates than of the avoidance of large-scale, highly location-specific redundancies.

This suggests that it is not plausible to see the aid to the upper Clyde yards as government action to secure a socio-economic optimum which would not come about through market forces.

47. Alexander, 1973, p.6.

48. Herron, 1972.

Rather, explicitly political explanations seem to be the most important; of these three related points can be identified.

(1) The militant reaction to the government's initial decision did raise fears about civil disorder. As Peter Walker later put it, 'I think there was a genuine feeling that unless some action was taken then social disorder of a type we hadn't seen in this country could have taken place in that city'.⁴⁹

(2) The issue of unemployment from the UCS yards was important, not because of its direct or indirect economic impact, but because of the symbolic value it acquired as an indication of the government's attitude to the region as a whole. This was later described by John Davies himself:

'I think that the thing that really developed alongside the problem of militancy ... was the fact that we had unemployment rising rather rapidly at the time ... and, of course, that added fuel to the flames of militancy very much, and understandably in some ways. And one had to face the problem that this was not an issue which could be considered on its own industrial merits, that it, in fact, affected more and more the whole of the attitude of mind of West Central Scotland with its growing problem of unemployment'.⁵⁰

(3) When UCS went into liquidation the Northern Ireland civil disorders were very serious and because of the number of people with Irish backgrounds in the Glasgow area there was some fear that there was a risk of the spread of terrorism and civil violence to Glasgow under conditions of very heavy unemployment.⁵¹

49. Peter Walker, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Events of 1972 - Industrial Policy'. BBC Radio, 31 July 1976.

50. John Davies, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Upper Clyde Shipbuilders'. BBC Television, 11 July 1976.

51. Nicholas Ridley, interviewed in Open University programme: Decision-making in Britain Course: Government and Industry Block: 'Upper Clyde Shipbuilders'. BBC Television, 11 July 1976.

Apart from showing the powerfulness of myths, this account of the government's policy following the UCS liquidation has shown not only that a general policy of non-intervention does not shelter the government from the need to make decisions about individual problems, but that even after an initial decision has been made the government continues to be subject to political pressures which, if powerful enough, may result in the government taking action which both goes back on the original decision and which effectively marks a reversal of the general approach to which the government had declared itself committed.

6.4 OTHER AD HOC INTERVENTIONS

6.4.1 Harland and Wolff

Although public attention was almost entirely focussed on UCS during this period, the government also became involved in the affairs of two other yards during the aftermath of the UCS collapse. We have already seen that even before the liquidation of UCS the government had approved a rescue plan for Harland and Wolff. In May 1973 it was announced that government grants and loans totalling £23.5m would be given towards Harland and Wolff's expansion plans. The remaining £12m was to be found from the company's present and future resources (sic). Later the same year it was announced that about £10m of the debt owed to the government would be replaced by about £8m of non-voting convertible preference shares. At the same time the government said that it would provide guarantee facilities up to a further £10m - despite its 'no further aid' statement in 1971. Harland and Wolff's finances continued to deteriorate in 1974, and in 1975 the Labour government took complete control of the yard in an operation separate from the proposed nationalisation of the industry as a whole, and injected further funds (see section 7.3.2).

There has been a considerable degree of continuity of policy of governments of both political parties in providing aid to Harland and Wolff. The yard's location in Belfast gives it a special political significance over and above the normal reluctance of governments to seem responsible for allowing large-scale redundancies in an area of high unemployment. No government would be keen to have unoccupied thousands of workers in the situation of civil strife which has existed in Northern Ireland since 1969. In addition, particularly since 1972, when direct rule was instituted, continuing government support for Harland and Wolff has been necessary to allay fears of an economic withdrawal from the province which many in Northern Ireland fear would be the prelude to a political withdrawal. British governments have therefore been faced with a dilemma: to close the yard could precipitate a political crisis but to continue to support a yard which appears incapable of telling from one six-month period to the next by how much its estimated losses will escalate prolongs a source of economic and political insecurity.

6.4.2 Cammell Laird

Following the taking of a 50% government shareholding in June 1970 (see section 5.3.3), a management reshuffle was carried out in August 1971, with a Canadian, Graham Day, being appointed managing director. In November 1971 the government announced that it was to provide £3m to Cammell Laird as a stand-by facility over the next year or so. A further £3m was made available the following April to enable modernisation to proceed. £14m aid towards the company's £25m modernisation scheme was announced in September 1972. A year later the company revised its estimate for capital works from £14m to £16.36m, in April 1974 to £22.5m, and in June 1974 to £23m. It estimated that it

would need £27m in government aid: £23m for capital works and £4m for working capital and contingencies. The Department of Industry agreed that the company should proceed with the capital work as planned, subject to a possible reappraisal of the project, though the department recognised that reappraisal might not be a valid option.⁵² In January 1975, after there had been considerable delays in the reconstruction, Cammell Laird ordered the contractors off the site and started legal proceedings against them. The Public Accounts Committee was severely critical of the Industry Department and deplored the lack of control over the public funds involved.⁵³ Despite its problems, Cammell Laird registered a profit of £1.1m in 1973, half its 1973 figure. The company's operating forecasts in June 1974 had indicated net profits for the four years 1974-7, but examination by the Department of Industry suggested a possible deterioration in performance.

6.5 INSTITUTIONALISING INTERVENTION

The government's experiences with a number of firms, particularly UCS, led it to come to the conclusion that it needed a general framework of assistance and advice which would enable it to intervene without having to set up special arrangements in each case. This marked a change from the acceptance of possible exceptions to a policy of non-intervention to a general presumption that the government would be intervening frequently on a selective basis. At the same time, the problems of a number of shipbuilders showed that immediate steps would have to be taken in addition to longer-term selective assistance if many of the firms were not to collapse. The number of orders received by UK yards was falling dramatically (see figure 6.1).

52. HC 85, Session 1974-5, pp.xxxv-xxxvi.

53. HC 374, Session 1974-5, p.xxvii.

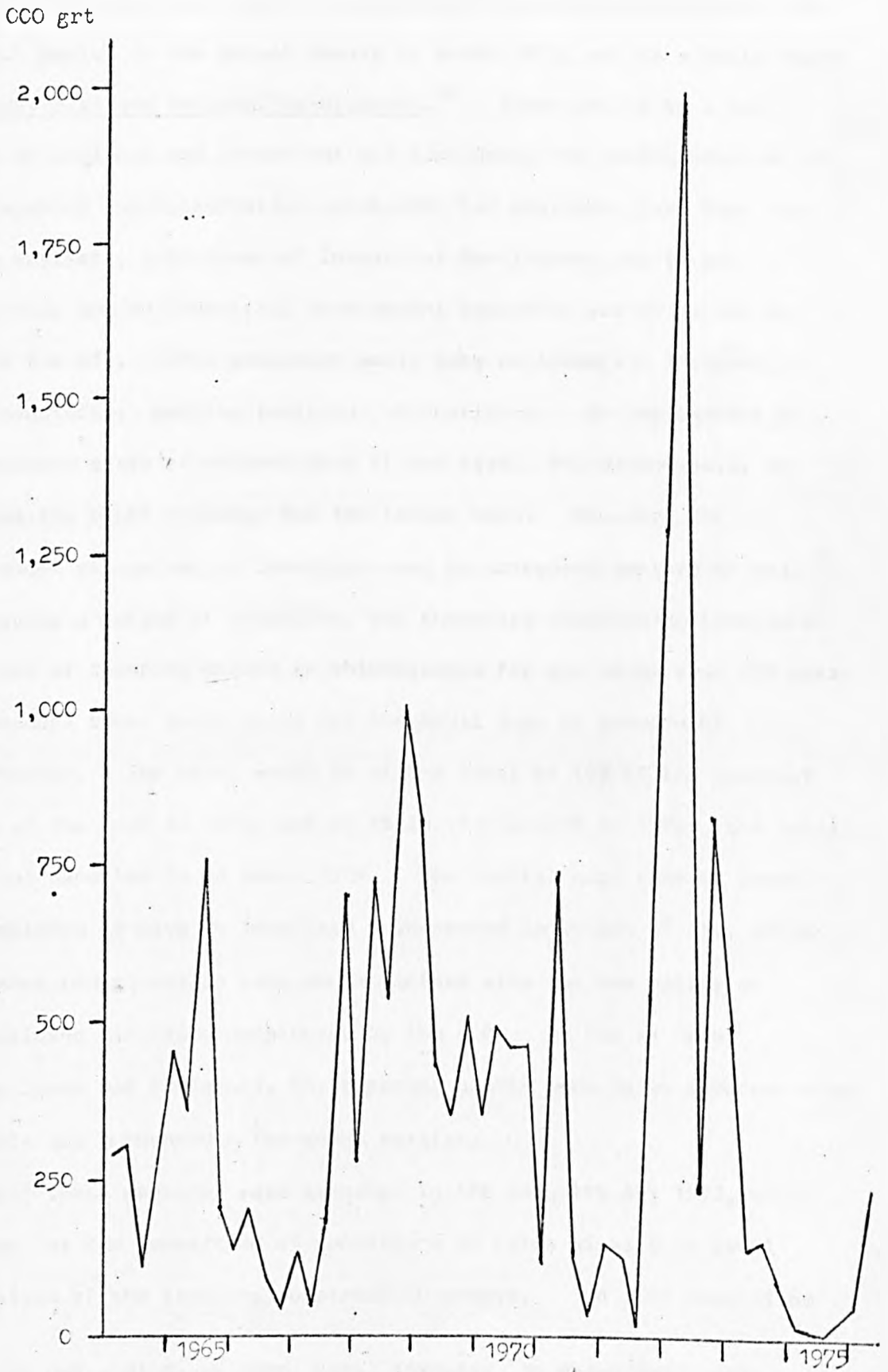


Fig. 6.1 Merchant shipbuilding orders placed in UK yards by quarter

Source: Figures taken from British Shipping Statistics 1974, table 3.4, p.48, updated from The Times.

The formal announcements of the changes in Conservative industrial policy were made by Mr. Barber in his Budget statement and by Mr. Davies in the Budget Debate in March 1972, and in a White Paper on Industrial and Regional Development.⁵⁴ There was to be a new range of regional and industrial aid (including the re-introduction of grants, which the Conservative government had abolished less than two years earlier), a Minister of Industrial Development was to be appointed, and an Industrial Development Executive was to be set up within the DTI. This executive would take an immediate interest in two industries: machine tools and shipbuilding. In the context of the current state of shipbuilding it was vital, Mr. Davies said, to develop the right policies for the longer term. However, the government recognised an immediate need to safeguard employment and to provide a period of stability, and therefore proposed to introduce a system of tapering grants to shipbuilders for all ships over 100 gross tons except those being built for the Royal Navy or government departments. The rates would be at the level of 10% of the contract value of the work in 1972, and at 4% in 1973 and 3% in 1974; the total cost was expected to be about £50m. The initial high rate of grant was designed to give an immediate much-needed injection of aid, while the later reductions in rate would conform with the new policy on shipbuilding aid being considered by the EEC. As far as Govan Shipbuilders was concerned, the tapering grants were to be deducted from the £35m aid announced a few weeks earlier.

All these measures were embodied in the Industry Act 1972, which allowed for the imposition of conditions on firms wishing to avail themselves of the tapering construction grants. Two such conditions

54. HC Deb., 21 March 1972, cols. 1357-69; 22 March 1972, cols. 1534-55. Cmd 4942.

were imposed by the DTI: (1) cooperation with the Department of Employment over work practices and (2) the provision of adequate information.⁵⁵

As part of the shipbuilding package in the Industry Act, the statutory ceiling on credit guarantees was raised to the £1,000m promised the previous August; provision was made for a further extension to £1,400m by order. New arrangements had already been announced in March for export and shipbuilding credits before the publication of the White Paper, following representations from the clearing banks during 1971 that the fixed medium-term rate of interest had got badly out of line with current market rates and that it was inequitable that an uneconomic rate should be held at the expense of the banks' shareholders.⁵⁶ The effect of these new credit arrangements was that in future any element of subsidy would be made explicit, whereas under the old arrangements the banks had absorbed the extra cost of providing the credits in return for other 'favours' from the government. The cost of the new arrangements turned out to be well above expectations, and the system set up to administer them broke down.⁵⁷

Within two years the government had moved on general industrial policy from an approach of non-intervention with some possible exceptions to setting up a framework for selective intervention. On shipbuilding, the Conservatives had moved from ambiguity about shipbuilding as an exception to the general approach, through a declaration that shipbuilding would not be treated as a special case, followed soon

55. Private information. Interview conducted on 14 August 1973.

56. HC Deb., 15 March 1972, cols. 535-41. See also HC 303, Session 1974, para. 1.

57. For details see HC 67, Session 1973-4, pp.xvii-xx; HC 303, Session 1974; Cmnd 5786, p.3.

after by massive assistance to a number of individual yards, to a policy of temporary general subsidy to all firms in the industry. The statement that the new Industrial Development Executive would be taking a special interest in shipbuilding implied that the government accepted a continuing responsibility for the fate of the industry. These fairly dramatic changes in policy towards the industry point to special difficulties in maintaining a stance of non-intervention, and these will be analysed at the end of the chapter.

6.6 THE BOOZ-ALLEN REPORT

6.6.1 The nature of the inquiry

The form which the 'immediate interest' in shipbuilding by the new Industrial Development Executive took was the commissioning of a report by Booz-Allen and Hamilton International BV, a firm of management consultants, whose 'terms of reference excluded them from making recommendations on policy'.⁵⁸ Despite the initial impression of urgency, the announcement that Booz-Allen and Hamilton would be carrying out the study was not made until June 1972. The report reached the minister's desk at the beginning of February 1973, and was published in May after editing by the DTI to remove material provided in confidence.⁵⁹

The report itself contained nothing that the DTI did not already know, or could not have found out itself. Indeed, under the Industry Act the DTI could threaten the withholding of the tapering construction grants from firms which did not provide the necessary information to Booz-Allen. The purpose of the exercise was to secure a report produced by an outside body, to which the DTI could refer when stating its views.

58. HC Deb., 16 May 1973, written answers col. 347.

59. Booz-Allen Report, 1973.

6.6.2 The report's findings

The Booz-Allen Report echoed many of the findings of the Geddes Report seven years earlier. UK yards generally were undercapitalised and poorly managed. The industry had a poor reputation amongst its customers, particularly for delivery and labour relations. Overseas shipbuilders had moved more rapidly to modernise and re-equip their facilities and were better placed to face the forecast overcapacity, which was expected to become more severe during the remainder of the 1970s. However, management had strengthened in several companies, which were already showing signs of improving their reputation for efficiency and delivery.

Government support alone could not ensure a long-term market for the industry, nor was technology likely to offer any particular advantage to the UK, the report considered. The direct price support available from the government in the UK would have been sufficient to enable the UK shipbuilding industry to offer competitive prices in the world market if it had been operating as efficiently as shipbuilding in other countries. In practice, the industry had not performed as efficiently as the main competition in Japan and Europe, and revenue support had been used largely to meet operational losses and to replace working capital. Long-term development of the UK shipbuilding industry could only be achieved if government support was combined with lasting improvements in the industry's performance. Government capital support was considered essential if the necessary degree of cost reduction was to be achieved.

The report examined a number of hypothetical future 'situations' for the merchant shipbuilders given various combinations of government support and improvement in cost-effectiveness; these are summarised in table 6.2. A particularly important point to note is that in all

Table 6.2 Summary of situations examined by the Booz-Allen Report.

COST-EFFECTIVENESS OF THE INDUSTRY

Existing (1972) Level of Costs and productivity including benefits anticipated from supported yards

LEVEL OF GOVERNMENT SUPPORT

Low Level

- Shipbuilders Relief (equivalent to 2% of contract price)
- OECD Credit arrangements
- Commitments already made to supported yards

Medium Level

(Equivalent to Existing Level)

Capital support and revenue support up to 5% of sales.

Revenue support: same aids as for low level, but could also include

- Direct cost subsidy to shipbuilders
- Capital investment grants and loans to shipowners

Capital support in the form of

- Specific grants or loans for the reconstruction of facilities
- General grants or loans e.g. regional development grants
- Ad hoc loans and grants for special purposes

High Level. Capital support and revenue support up to 10% of sales - but not flag discrimination.
As for medium level, but could also include

- Direct subsidy
- Price support
- Inflation insurance

A	1971	1977	1982
Output (million grt)	1.2 (0.4)	1.2 (0.8)	0.6
UK % of world output	5.1	4.4	2.0
Employment (000)	49 (16)	27 (12)	25
Government support (fm)		1972-7	1977-82
Total capital in period		60-5	0.0
Maximum revenue per annum		3.0	0.5
Comment. Decline primarily at expense of 'unsupported' companies: 1-3 would have to close by 1977. After 1977 survival of individual yards following bankruptcy of groups.			
D	1971	1977	1982
Output (Million grt)	1.2 (0.4)	1.5 (0.8)	1.2 (0.8)
U.K.% of world output	5.1	5.6	4.0
Employment (000)	49 (16)	37 (12)	30 (12)
Government Support (fm)		1972-7	1977-82
Total capital in period		110-20	-
Revenue per annum		9.0	7.0
Comment. Similar to existing (1972) situation. One major closure of 'unsupported' company by 1977, and another by 1982.			

G

Omitted from detailed evaluation because it implied committing government support solely to making up losses in the industry and encouraging the placement of orders mainly through revenue support.

Note: 1. Figures in brackets refer to 'supported' yards. The supported yards are Cammell Laird, Govan Shipbuilders and Harland and Wolff; the 'unsupported' yards are Austin and Pickersgill, Doxford and Sunderland, Robb Caledon, Scott Lithgow and Swan Hunter. Appledore was not included in the detailed analysis of the situations because it was assumed that the company would continue to operate under all conditions.

Table 6.2 (cont.)

COST-EFFECTIVENESS OF THE INDUSTRY.

Costs reduced by 10%.

Improvement of over 40% required in output per employee.
Capital invested in new facilities £3,000 per employee.

Costs reduced by 15%.

Improvement of over 110% required in output per employee.
Capital invested in new facilities of £6,000 per employee.

Omitted from detailed consideration because improvements in cost effectiveness of the order needed would require government capital support for new facilities; this would not be available with a low level of government support.

E	1971	1977	1982
Output (million grt)	1.2 (0.4)	1.4 (0.8)	1.6 (0.8)
U.K.% of world output	5.1	5.2	5.5
Employment (000)	49 (16)	29 (12)	32 (12)
<u>Government support (£m)</u>	1972-7		1977-82
Total capital in period	100-20		10
Maximum revenue per annum	8.5		10
Comment. Probable closure of one major 'unsupported' shipbuilder by 1977. Increase in employment after 1977 almost all in 'unsupported' shipbuilders.			

Omitted from detailed evaluation because improvements in cost effectiveness of the order needed would require a level of government capital support higher than the existing level of government support.

H	1971	1977	1982	I	1971	1977	1982
Output (million grt)	1.2 (0.4)	1.6 (0.8)	2.0 (1.0)	Output (million grt)	1.2 (0.4)	1.8 (1.0)	2.5 (1.25)
U.K.% of world output	5.1	5.9	6.8	U.K.% of world output	5.1	6.7	8.6
Employment (000)	49 (16)	35 (12)	40 (15)	Employment (000)	49 (16)	35 (15)	39 (18)
<u>Government support (£m)</u>	1972-7		1977-82	<u>Government support (£m)</u>	1972-7		1977-82
Total capital in period	125-35		6.7	Total capital in period	210-50		2-3
Maximum revenue per annum	20		25	Maximum revenue per annum	22		27
Comment. No major closures.				Comment. No major closures.			

the situations examined employment would drop substantially, even where there was a high level of government support. As the report remarked, 'In fact, significant capital investment will often be counter-productive in terms of maintaining employment at a particular yard'.⁶⁰ A particularly tricky manpower planning problem, the implications of which were not discussed in the report, was posed by situations E, H and I, in which employment was forecast to drop sharply from 1971 to 1977, and rise again sharply from 1977 to 1982, though not to the original 1971 level.

These forecasts were based on a model of the shipbuilding industry which was developed to provide an 'overview' of the industry as a whole and was unsuitable for the evaluation of individual yards (for comments on demand forecasting in the report see section 1.4.2). An essential condition of achieving the shares of the world market indicated was the achievement of the levels of improved productivity and delivery performance assumed in the model. These market shares would not be obtained if (1) there was a significant increase in the price support or restrictive practices adopted by other governments; (2) shipbuilding in Europe or elsewhere achieved substantial cost reductions through improved performance over existing levels; (3) market demand increased substantially less quickly than forecast. These conditions illustrate the limitations of the model used in the report. If the levels of UK government support specified in situations H and I were given then (1) would be quite likely to occur; improved performance over existing levels by foreign shipbuilders as in (2) seemed quite likely; as for (3), after a surge in the demand for tankers while the report was being put together, this part of the market collapsed a few

60. Booz-Allen Report, 1973, p.9.

months after the publication of the report.

Booz-Allen also considered the future of the warshipbuilders and produced a confidential annex to the main report on the alternatives open to the government. The Geddes Report had recommended reduction of the number of yards competing for naval orders from the existing twelve to two specialising in submarines and three other yards. By 1972 naval work was concentrated in three specialist builders (Yarrow, Vickers and Vosper Thornycroft) and three non-specialist builders (Swan Hunter, Scott Lithgow and Cammell Laird). A large excess of naval shipbuilding capacity over home demand was forecast by Booz-Allen, and it was unlikely that export sales would be sufficient to fill the excess capacity after 1976. The Ministry of Defence could concentrate its orders on the three specialist yards and exclude from its building programme the three non-specialist yards. Even so, the specialist firms could not rely wholly on the Royal Navy programme for their continued viability - a source of potential dilemma for Labour governments faced with demands from supporters both to maintain employment and restrict the supply of war materials to certain regimes. Since some of the naval capacity of the non-specialist builders was not suitable for merchant work it was likely that unemployment would result if they were excluded from warshipbuilding. The government's dilemma in dealing with this recommendation was increased by the fact that all three non-specialist yards were in assisted areas, two of them in special development areas. In practice, whatever their stated policy or the long-term logic of specialisation, governments may succumb to the temptation to divert a naval order to a non-specialist builder to fill a gap in an order book as the Labour government did with Swan Hunter in 1976.

6.6.3 Reactions to the report

When the report was published, Mr. Chris Chataway, the new Minister for Industrial Development, invited written comments within a month. The CSEU asked for and was granted an extension of time to submit its views. However, the effectiveness of these representations was prejudiced by hints which Mr. Chataway dropped at the International Marine and Shipping conference in London at the beginning of June. He reaffirmed that the government was in no way committed to the financial or employment implications of the report, and that it was hoped that all the interested bodies and the government could start objective (sic) discussions on the industry's future, but he pointed out that ship-building was already receiving substantial assistance from public funds. Referring to the considerable surge in orders in the first quarter of 1973, Mr. Chataway said that the report had to some extent been overtaken by events. This remark illustrates the danger of government's focussing on short-term trends, since the boom soon turned into a worldwide slump.

The SRNA, in its submission on the report, suggested that investment loans should be made available on favourable terms to support further modernisation and that this assistance should not be discriminatory. The SRNA also urged the maintenance of existing credit facilities and the introduction of an inflation guarantee scheme similar to the Coface scheme operated in France and referred to in the report. Also advocated was the extension of the tapering construction grants beyond 1974 as a form of revenue support. Although the ship builders welcomed the report's emphasis on the need for capital investment, there was some disagreement with its conclusion that the number of men employed in the industry would fall.

The CSEU was severely critical of the terms of reference of the report, arguing that the consultants had been asked to consider the long-term prospects of British shipbuilding unrelated to the overall structure of marine engineering and shiprepairing and without any guide to the minister's likely policy criteria. The CSEU wanted a figure of £250m aid to be regarded as a minimum. As for the reductions in employment projected by the report, the CSEU was quite uncompromising: 'We emphatically state that our unions will make quite certain that such a plan will never be applied to our members ... We will agree to no plan which involves raising productivity faster than production'.⁶¹ The unions' submission was altogether a rather remarkable document, referring as it did to 'the hurriedly written and leisuredly (sic) doctored Booz-Allen report'. The CSEU document concluded by reaffirming the unions' commitment to nationalisation.

Unlike both shipbuilders and unions, the UK Chamber of Shipping took the view that if employment in shipbuilding were to continue at its existing level it would require an unrealistically large share of the market to maintain it and a level of government subsidy which would almost certainly encourage other governments to follow suit. However, the shipowners, while attaching importance to the maintenance of a competitive, profitable and efficient UK shipbuilding industry, also emphasised the importance of being able to order from the yards which offered the most competitive terms, whether in Europe or Japan.

6.7 THE JULY 1973 POLICY STATEMENT

The speed with which the government's policy statement, made to the House of Commons on 23 July 1973, followed the submission of views by the interested bodies suggests that the government had not waited to

Report

61. CSEU document, 'Reply to the Booz-Allen/to be presented by the CSEU to Mr. C. Chataway of the Department of Trade and Industry'.

receive those views before formulating its own policy. In his statement, Mr. Chataway said that the upsurge in orders meant that the industry was in a better position than Booz-Allen envisaged to finance modernisation schemes (though this surge in orders was to be reversed within months of Mr. Chataway's statement).⁶² The core of Mr. Chataway's statement was that shipbuilding would no longer be a special case and that the next step would be to consider under the 1972 Industry Act investment proposals for individual projects. These would be considered on the same basis as investment projects from other industries with the exception that the government would be prepared to give the same favourable loan terms to shipbuilding modernisation schemes which did not increase employment as were normally given only to schemes which did provide more jobs.

The Ministry of Defence accepted the Booz-Allen view that warship orders should be concentrated on specialist builders; the non-specialist builders would continue to be able to tender for auxiliary vessels. Applications for the modernisation of both the specialist and the non-specialist yards would be considered by the DTI in the same way as those from other shipbuilders.

That shipbuilding was no longer to be considered a special case might seem to be a simple reversion to the declared policy of the Conservative government prior to the UCS liquidation (see section 6.2.4), but the rest of British industry had to a certain extent 'caught up' with shipbuilding as a result of the Industry Act 1972. One feature both statements had in common: they ignored the government's vulnerability to the political pressures arising from the employment consequences of problems facing individual yards. Although no longer a non-interventionist approach, the government's new policy was still a fragmented one, since it did not incorporate a stated view about the

62. HC Deb., 23 July 1973, cols. 1157-64.

total level of support which the government was prepared to give, nor did it make clear the size of redundancies which the government expected. Mr. Chataway's statement made it clear that assistance to shipbuilding would be considered on an individual yard basis, so no direct comparison could be made with the Booz-Allen scenarios, nor could any forecast be made for the prospects of the industry as a whole. Indeed, in reply to a direct question from Mr. Benn

Mr. Chataway replied:

'As for the final cost and the final employment figure involved in reshaping the British Industry, clearly one cannot at this moment make estimates, because they depend upon the vigour (Hon. Members: "Why not?") They depend upon the vigour with which the industry responds to the Booz-Allen Report and the proposals that are put to us for the modernisation of individual yards'.⁶³

Although it is not possible to make a direct comparison with the Booz-Allen scenarios, the type of assistance announced by Mr. Chataway seems closest to D or E, probably nearer D than E (see table 6.2). If the Booz-Allen forecasts were anywhere near the mark, then the industry faced a sharp drop in employment. However, apart from the exception in giving assistance where no new jobs were created, Mr. Chataway made no reference in his statement to employment prospects in the industry. While this may have prevented an attack from the shipbuilding unions, which refused to recognise the inevitability of any redundancies, this was a very short-sighted approach to take. In the absence of any specific proposals to give new jobs to redundant shipyard workers it was inevitable that the unions in the yards would

63. HC Deb., 23 July 1973, col.1164.

not cooperate fully in modernisation schemes which reduced employment. The chances were that such firms would end up coming to the government for help in meeting losses and that political pressures would result in the government giving aid which did little to improve the firm's competitive ability.

6.8 THE POLITICS OF NON-INTERVENTION

The fate of the Conservative government's approach to shipbuilding policy shares one very important feature with the Labour government's involvement in the industry in the late 1960s. When the Labour attempt to 'promote the competitiveness' of the industry by providing certain kinds of assistance came up against individual cases where the policy might have suggested allowing a firm to go under, the government decided nevertheless to rescue the company; similarly when the Conservatives with their policy of non-intervention were faced with the political repercussions of firms in danger of collapse they intervened on a massive scale. Within the first two years of office the Conservatives not only committed more funds in selective support for shipbuilding than the Labour government had done in six years, they also did something which the Labour government had never done by introducing indiscriminate subsidies. For both parties the political pressures over individual firms turned out to be more powerful than the assumptions underlying general statements of policy. Implementation was not simply a matter of 'following through' a declared approach; implementation was where policy in practice was decided.

The experience of the Conservative government suggests that a policy of non-intervention is not immune from political reactions to attempt to apply it in individual circumstances. Indeed, there may be special political difficulties in implementing such a policy. This arises in

two different ways. First of all, such a policy is not promulgated in a historical vacuum; current expectations will be that governments will intervene no matter what their initial statements of policy; only after a long run of choices not to intervene would such expectations alter. Secondly, there are always likely to be some exceptions built into a policy of non-intervention from the start, such as strategic or regional economic considerations, and this will require that each case will have to be considered on its merits. Not to intervene therefore requires a continuous set of choices not to intervene as each problem occurs, rather than a general policy statement followed by the withdrawal of the issue from the political arena. It is misleading for advocates of markets as means of making choices currently taken by the government to imply that this in some way depoliticises these choices. Thus Participation without Politics is an inappropriate title for Samuel Brittan's book on the role of markets, since decisions not to intervene are as much political acts as decisions about what form intervention should take.⁶⁴

Once it is accepted that governments cannot shelter behind a general declaration of policy but have to make a choice about whether or not to intervene each time a problem occurs, the political dice are weighted against non-intervention. The reason for this can be summed up as: the adverse effects of non-intervention are immediate, concentrated and visible, whereas the beneficial effects are long-term, hypothetical, controversial and dispersed. Thus the adverse effects of failing to bail out a large firm may be immediate large-scale redundancies in a town with high unemployment, where those affected can be identified and will be likely to organise themselves to protest about

64. Brittan, 1975.

their situation. The benefits of such a policy, however, are only likely to emerge in the long term, possibly after the government had lost office, and only as part of a long series of decisions not to intervene; such benefits are hypothetical in that they may emerge through better resource allocation, lower taxation or lower inflation, and controversial in that not everyone will agree whether a general policy of non-intervention or a particular act of non-intervention will produce such effects. Above all, any beneficial effects of non-intervention will be dispersed among a large number of people who will not be able to identify the extent to which they may have benefited from a particular 'non-intervention'; no such group of beneficiaries will lobby MPs or send delegations to ministers, nor will the media be able to interview individuals who will tell of the benefits they have received.

A government with an initial commitment to non-intervention which decides to intervene on a massive scale in a particular firm, such as UCS, may face grumbling from some backbenchers and party supporters, but on the other hand, not to intervene may provoke fierce and possibly illegal reaction. (Once in Opposition again, of course, the party may exact its retribution, as Edward Heath found to his cost). The easiest way to remove a controversial issue from the political agenda in the short term is therefore to intervene by providing public funds. In the longer term, as the history of UCS and Harland and Wolff suggests, the firm may be back for more, which is, of course, one of the things which a policy of non-intervention seeks to avert. The choice which the Conservative government made when faced with apparent present political costs outweighing present political advantages was to set up a framework in the Industry Act 1972 which would make it easier for it (or any other government) to intervene when it chose to do so.

To carry through a policy of non-intervention therefore requires considerable political determination to make a continuous set of choices not to intervene in the face of possibly rising opposition. We do, in fact, have virtually no information about the electoral impact of industrial policy, but as with UCS issues of civil order may also arise. Less dramatically, the government may be concerned about the 'trade-off' effects of industrial policy; it may intervene in the hope that this would help to secure compliance with, say, industrial relations legislation or incomes policy. An alternative course of action, at least in theory, would be for the government to seek to defuse some of the political reaction which arises from the social consequences of industrial change. This would imply giving an undertaking to provide specific new jobs to meet specific large-scale redundancies. There would be considerable practical difficulties in implementing such a policy, and it would reduce the hypothetical benefits to be gained from a policy of non-intervention in the sense of not propping up non-viable firms. However, the experience of the Conservative government suggests that a government has to be prepared one way or another to meet the political reaction which arises as a result of decisions about individual firms. To disregard the political nature of decisions about implementing a policy seems to be a guaranteed way of ensuring that the policy will be overturned.

7 POSTSCRIPT: DEVELOPMENTS UP TO NATIONALISATION

7.1 INTRODUCTION

In February 1974 the Labour Party was returned to office (initially as a minority government) with a declared policy of nationalising the shipbuilding industry. However, this change of government coincided with a dramatic change in world demand for ships (see fig. 6.1) which altered the prospects of the UK industry from those expected when the Labour Opposition drew up its proposals in conjunction with the unions. It seemed inevitable that the new nationalised body would have to preside over the contraction of the UK industry. Before the nationalisation proposals could finally be embodied in legislation, the government became involved on an ad hoc basis with the affairs of a number of shipbuilding firms.

7.2 THE COURT LINE AFFAIR

The government's first ad hoc involvement on taking office was in the Court Line shipbuilding interests, which consisted of Sunderland Shipbuilders on the Wear and the Appledore yard in Devon. Sunderland Shipbuilders had already become the first major shipbuilding company to be awarded selective financial assistance under the Industry Act 1972 by being allocated a loan of £9m, though this depended on Court Line itself putting in £3m. Mr. Benn, the new Secretary of State for Industry, was first told of Court Line's difficulties soon after the February 1974 election. Dealings in Court Line shares were suspended in June, and talks took place between Court Line, its bankers and the government about finding finance for the shipbuilding Division's capital investment programme and the

group's package tour operations, which had been hit by a drop in bookings and rising costs. The main problem for the shipbuilding interests did not at the time seem to be loss-making orders (though it was later revealed that Sunderland Shipbuilders made a loss of nearly £6.5m in the year to September 1974) but shortage of finance to enable modernisation to proceed.

The surprise form which intervention by the government took was to take into public ownership the entire shipbuilding and shiprepairing interests of Court Shipbuilders. This was to be done under the Conservative's Industry Act, a fact which Mr. Benn exploited to the full in the House of Commons. Mr. Benn claimed that this move would safeguard £133m of shipbuilding orders and the jobs of 9,000 workers in development areas, making possible the completion of £48m worth of further orders and, in a phrase which was later to assume great significance, 'safeguarding the holidaymakers'.¹ The following week, Mr. Benn announced that a payment of £8m was to be made for Court Shipbuilders (£16m for the capital minus £8m owed by Court Line to the shipbuilding company, though £4m of this was to be allowed to remain outstanding for a short period).²

The haste of the government's move is indicated by the fact that Mr. Benn did not put the purchase before the Industrial Development Advisory Board for their consideration. The appointment of a firm of accountants to examine the future viability of the residual Court Line company was not made until after Mr. Benn's 26 June statement. Although the government had had some warning that Court Line was in difficulties some months before, the final warning of impending

1. HC Deb., 26 June 1974, col. 1558.

2. HC Deb., 1 July 1974, written answers cols. 6-7.

collapse gave the government only a few days to undertake important decisions. The hectic nature of such crises is illustrated by a quotation from the Ombudsman's report on the affair:

'On 19 June Court Line directors had approached the Department of Industry asking the Government for urgent financial assistance to avoid a complete and imminent collapse. Within 96 hours the Department had discussed with the directors a scheme to acquire all of the capital of the shipbuilding and ship-repairing subsidiaries; had put the scheme to the Treasury and Ministers; and had finalised intensive negotiations with the directors and their advisors on the amount of the purchase price'.³

The government's purchase of Court Shipbuilders failed to save the rest of Court Line, which collapsed within two months, leaving over 40,000 holidaymakers stranded abroad and many more with their holiday plans ruined. Not surprisingly, the government came under fierce attack for allegedly giving false reassurances to holidaymakers about Court Line's ability to continue to operate. Mr. Shore agreed to set up an inquiry into Court Line and its subsidiaries under the Companies Act. In October 1974 it was announced that the Ombudsman had decided to investigate the part played by Mr. Benn in the Court Line affair. In September, a few weeks before the October election, Mr. Shore, the Secretary of State for Trade, announced a new scheme to protect holidaymakers. The government was prepared to make an interest-free loan to the scheme; the implication was that Court Line holidaymakers who had lost their holidays would get their money back.

The Ombudsman and the inspectors appointed by Mr. Shore, whose

3. HC 498, Session 1974-5, p.17.

reports were published at the end of July 1975, were both critical of the statements made to Parliament by Mr. Benn on 16 June and 1 July 1974, arguing that the statements went further than was justified in reassuring the public about the continuation of the company's operations for the rest of summer.⁴ The government, however rejected these criticisms, and in a debate on the reports in the House of Commons the government had a majority of 24.

The Court Line affair illustrates in an acute form the speed with which the government has to act in carrying out rescue operations. Partly as a consequence, the government based its decisions on what turned out to be totally unreliable information - a feature which this rescue shares with many of the others considered in this study. One unusual feature of the affair was that, in contrast with some other interventions where the political repercussions of a rescue fall on the head of a subsequent government (e.g. UCS), on this occasion there were short-term identifiable political costs attributable to the minister and government which had made the decision. Normally it is only the political costs of not intervening which are visible and short term. As far as the government was concerned, these political costs took the form of embarrassment rather than actual defeat in the House of Commons. At a personal level, Mr. Benn's chances of remaining in his Industry Secretary post cannot have been improved by the findings of the two reports on the affair. What has not been resolved are the questions of how far the government is entitled to utter expressions of reassurance on the basis of possibly inaccurate information (or obliged to in order to prevent a collapse of confidence), and what are its responsibilities towards those who

4. HC 498, Session 1974-5; Department of Trade, 1975.

suffer as a consequence of the collapse of a firm in which the government has been involved. The attitude of governments of both parties over compensation to UCS creditors, and the Labour government's stand over the Court Line affair, suggest that governments are seeking to minimise their liability to creditors for the financial consequences of collapses of such firms, while at the same time taking on responsibility for providing continuing employment.

7.3 FURTHER INVOLVEMENT IN HARLAND AND WOLFF AND GOVAN

7.3.1 Introduction

As well as taking over Court Shipbuilders, the government continued to be involved in a number of yards with a long history of receiving public funds. The government's commitment to Cammell Laird steadily escalated as the cost of reconstruction increased (see section 6.4.2). Further funds were also allocated to Govan Shipbuilders, which had been established with a commitment of £35m in 1972 following the collapse of UCS, and Harland and Wolff, which continued to receive more funds despite assertions by the government that no more would be forthcoming.

7.3.2 Harland and Wolff

Discussions with Harland and Wolff carried out by the incoming Labour government revealed the company's continuing inability to meet production targets and the inadequacy of previous proposals for providing financial assistance. Consideration of a request for government aid was postponed in May because of the Ulster workers strike. Revised figures received by the government on 5 July 1974 showed that if the company was to continue trading further government assistance was urgently required. The amount was expected to be well in excess of the Conservative government's proposal only the previous

December that £10m of debt should be replaced by the issuing to the government of shares and that the government should provide guarantee facilities for up to £10m as needed up to the end of 1976 (see section 6.4.1).

In a statement to the House of Commons on 22 July 1974 Mr. Stanley Orme, Minister of State at the Northern Ireland Office, announced that the government had decided to extend its equity from 47.6% to a substantial majority.⁵ This would be done by expanding the equity rather than by acquiring shares from existing shareholders, though the possibility of moving to full public ownership at some future date was not ruled out. Accompanying the increased government equity would be a comprehensive review of Harland and Wolff's management structure and resources, a full review of the order book, a temporary moratorium on all new shipbuilding orders, and measures to reduce overheads and improve productivity and training. The government also proposed to consider full participation in management by representatives of all employed in the firm. The cost of the rescue operation was to be met in part by compensating savings in public expenditure in Northern Ireland, though expenditure on social services and areas of high unemployment would not be cut. The ritual declaration was made that 'this must not be regarded by those working for the company as an open-ended Government subvention'.

Following Mr. Orme's statement, Mr. Ivor Hoppe, the Danish managing director appointed by the Conservative government in 1971, resigned at the request of the Northern Ireland Department of Commerce. There were considerable criticisms in Parliament when it was later revealed that Mr. Hoppe had been paid an annual fee of over £78,000

5. HC Deb., 22 July 1974, cols. 1060-71.

which was paid to a Swiss consultancy company for which he worked. Mr. Hoppe's replacement, Mr. Ronald Punt, deputy managing director at Harland and Wolff, was appointed a year later.

Harland and Wolff's long-term prospects were bound to be adversely affected by the collapse in the large tanker market following the oil price rise, since its facilities were designed to construct such vessels. However, prospective losses on existing contracts and slippage in the shipbuilding programme as a result of a prolonged industrial dispute meant that it was almost a relief when Maritime Fruit cancelled orders for three ships of 333,000 tons deadweight at the end of 1974. This was expected to improve the delivery position of the remaining three vessels ordered at the same time.

The review carried out following Mr. Orme's July 1974 statement revealed that the £38m provision for losses in the company's accounts for 1973 as published in November 1974 would have to be increased by over £22m. In a further statement to the Commons in March 1975, Mr. Orme announced that the government had concluded that the only satisfactory way in which the company could be financially reconstructed was for the government to be the sole shareholder.⁶ New contracts would require the approval of the Secretary of State. By this stage the promised discussion paper on worker participation had been sent to unions and management, and the government hoped that this would influence the attitudes of those in the yard. One of the forms which this participation eventually took was a restructured board with a chairman and fifteen members comprising equal numbers of executive directors, worker directors and government-nominated directors.

6. HC Deb., 26 March 1975, cols. 496-507.

Harland and Wolff was taken into full public ownership under the Shipbuilding Industry (No.2) (Northern Ireland) Order - the normal procedure for Northern Ireland legislation under direct rule - which was debated in the House of Commons at the beginning of August 1975.⁷ The order limited the amount of new public money to be provided to £60m but the financial reconstruction of the company also involved in part the writing off and in part the capitalisation of existing loans from the government. Between 1966 and March 1975 about £59m had been given in special assistance to Harland and Wolff, together with about £22m in standard assistance, including REP. If all the money was taken up under the new order, the company would have received a total of £119m in special assistance (excluding standard assistance) between January 1966 to March 1979. However, by June 1976 only about £20m of the new assistance remained unspent.

The government's attitude to providing assistance to Harland and Wolff continued to be complicated by the yard's role as a major employer in an area of civil strife and the symbolic value which the yard took on in the context of fears in Ulster about intentions by the government and British industry to begin an economic withdrawal from the province as a prelude to political withdrawal. These fears of economic withdrawal were increased by the government's refusal to include Harland and Wolff in British Shipbuilders under its nationalisation proposals; although the company was wholly owned by the government, the shares were held by the Northern Ireland Department of Commerce. The view expressed by Mr. Day, chief executive designate of British Shipbuilders, was that Harland and Wolff was a political question in the Northern Ireland context and they did not intend to

7. HC Deb., 1 August 1975, cols. 274-529.

try to mix politics with a commercial organisation - as if shipbuilding policy had ever done anything else!⁸ The prospects are that the government will again have to decide in 1977 whether to provide yet more funds to Harland and Wolff, and the special political considerations involved make it likely that it will agree to do so.

7.3.3 Govan Shipbuilders

When Govan Shipbuilders had been formed in 1972 the government undertook to support the company until it attained commercial viability or for five years, and agreed to commit up to £35m in aid, including assistance for the modernisation of facilities (see section 6.3.6). However, a report from the Public Accounts Committee in 1975 revealed that delays in starting and carrying out work on the facilities meant that substantial parts would not be in operation until late 1976 at the earliest, up to two years longer than Hill Samuel had originally estimated.⁹ Productivity had been projected to double by the end of 1977, but so far there had been no discernible improvement at all; losses on fixed-price contracts accepted by the company up to the end of 1973 were now expected to be £22m, an increase of £8.5m. Critical assumptions about productivity and the level of losses had therefore been falsified.

Figures subsequently issued by the Department of Industry quoted a figure of £29.2m at 1972 prices as the originally proposed direct assistance (the remainder of the £35m was to come from regional development grants and shipbuilding construction grants); this figure represented £42.2m at 1975 survey prices, of which £37.5m had been spent by the end of June 1975.¹⁰ The corporate plan which Govan

8. Times, 10 June 1976.

9. HC 374, Session 1974-5, para. 64.

10. HC Deb., 7 August 1975, written answers cols. 506-7.

Shipbuilders submitted to the Department of Industry in 1975 forecast that the company would not be making profits until 1978, and that further funds would be necessary to allow the company to complete the redevelopment programme and to support it until it achieved viability.

Accompanied by the usual ritual incantation - 'The company clearly cannot expect to continue to receive Government subsidies to cover its losses indefinitely' - the government announced that it would provide further funds 'in view of the 5,320 jobs which the company provide in an area of exceptionally high unemployment, and of the company's forecast that it will be making profits in 1978'.¹¹ This assistance was to take the form of a further £6.9m in loans at 1975 survey prices in addition to the £4.7m still outstanding, an extension of the support period to the end of 1979, and the provision of funds of up to £10.3m at 1975 survey prices to cover the losses which the company expected to incur on existing contracts in 1975, 1976 and 1977. It should be noted that these new funds were in addition to the conversion of the original aid into larger nominal sums at 1975 prices, so this new aid cannot be attributed to the effects of inflation in the way that some of the escalation of assistance in the late 1960s could be explained.

The company continued to have difficulty in securing orders at prices which could conceivably produce a profit. Govan lost an order for six cargo ships for Kuwait to a South Korean yard in April 1976 despite government approval to quote a potentially loss-making price. The winning of an order from another Kuwait customer for six similar ships the following month provided a breathing space. However, the

11. Mr. Eric Varley, Secretary of State for Industry, HC Deb., 7 August 1975, written answers col. 507.

firm's continuing difficulties make it almost certain that the government either directly or through British Shipbuilders will have to decide whether to provide assistance in addition to that announced by Mr. Varley in August 1975. Like Harland and Wolff, special political considerations, though of a different nature, apply to the Govan yard. In the Strathclyde Region the Labour Party took 26 of the 33 seats at the October 1974 election (though two of the MPs have since defected to the new Scottish Labour Party). The Scottish National Party came second in 23 of these 26. These figures suggest that at least a Labour government is likely to agree to a request for further aid.

7.3.4 Coming back for more

The important point to bear in mind when reading through these detailed figures is that both Harland and Wolff and Govan Shipbuilders (as the successor to UCS) had once again been given 'once and for all' assistance, and continued to absorb a large proportion of the total special assistance to shipbuilding firms. This further aid cannot be explained simply in terms of increased costs due to inflation. That the idea of firms coming back for more is not merely journalistic impressionism or confined to the shipbuilding industry is confirmed by a glance at the list of firms to which the IRC gave aid in the late 1960s, which reveals a number of firms, headed by British Leyland, which received further special assistance in the 1970s.¹² This implies that attempting to make such firms viable by providing pump-priming aid is rather difficult to achieve in practice. The willingness of governments to inject further aid despite earlier

12. See Young with Lowe, 1974, pp.231-6, for a list of firms which received IRC aid.

declarations to the contrary has, not surprisingly, reduced the credibility of such declarations and the extent to which those in the firms concerned feel compelled to make the necessary adjustments to eliminate dependence on future public support.

7.4 DRYPOOL: AN INTERESTING CASE OF NON-INTERVENTION

The Drypool shipbuilding and engineering company, which operated three shipyards on Humberside and employed about 1,200 workers, ran into financial difficulties in the summer of 1975. It had originally been formed with SIB assistance in 1969 (see section 5.2.6), and was included in the list of companies to be nationalised in the abandoned Aircraft and Shipbuilding Industries Bill of the 1974-5 Session. However, the government refused to provide assistance to rescue the company, both £2m requested in June and a later request for £10 a head subsidy for twenty-six weeks and some small orders to be placed within that period. A receiver and manager was therefore appointed at the beginning of September; the irony of this act of non-intervention by a Labour government was underlined when the receiver was named as none other than Mr. Robert C. Smith, the UCS liquidator! The government did provide £325,000 to allow the receiver to make a complete assessment of the situation. A report prepared by Mr. Smith and submitted to the Department of Industry in October 1975 concluded that the only hope of preserving most of the jobs was to split the group up and that the group 'as presently structured has no commercial logic behind it' - a rather devastating criticism of a group formed with assistance from the SIB under the merger philosophy and held by the SIB as a model for other small yards to follow.¹³ Far from coming to the rescue of the Drypool yards, the government excluded the group from the

13. Times, 11 October 1975.

new version of the Aircraft and Shipbuilding Industries Bill for the 1975-6 Session. The government defeated by 248 votes to 42 an attempt by Hull Labour MPs to include Drypool in the Bill at report stage.

At first sight this refusal by a Labour government to intervene does not seem to conform to the general pattern of intervention under both Labour and Conservative governments in the late 1960s and early 1970s. On reflection, however, it will be noted that assistance has overwhelmingly been focussed on large yards in areas of well above average unemployment. Although the Drypool yards were in an intermediate area, unemployment in Yorkshire and Humberside at 4.1% (seasonally adjusted) in the third quarter of 1975 was slightly less than average of 4.2% for Great Britain. The total workforce of 1,200 was relatively small, and the three yards at Hull, Selby and Beverley were fairly dispersed, with no single yard employing much more than 450 workers. Although there was a campaign to save the company, backed by Humberside Labour MPs, the government evidently felt that the political costs were worth bearing even though the sums of money which would have been needed to rescue the company would have been small relative to those given to other yards. The refusal to rescue Drypool therefore provides a useful counter-example which will assist the delimitation of the circumstances in which a government is likely to intervene.

7.5 OTHER DEVELOPMENTS INVOLVING THE GOVERNMENT

7.5.1 Maritime Fruit Carriers

Many of the orders placed in the UK during the order boom in 1973 had come from a single company - Maritime Fruit Carriers. Orders for six 333,000 ton tankers were placed with Harland and Wolff and orders for thirteen ships with options for thirteen more were placed with Swan Hunter. Scott Lithgow received orders for two 260,000 tons deadweight

tankers. At the end of 1975 35% of the UK shipbuilding industry's order book was accounted for by Maritime Fruit contracts. Maritime Fruit aimed to finance its shipbuilding programme by borrowing on the basis of the prospects of future income from the ships it was having built; this was an approach which could work well if the demand for ships continued to increase, but could spell disaster if demand contracted, as it did abruptly following the 1973 Arab-Israeli war and the subsequent oil price rise. Swan Hunter's exposure to this risk was increased by its 25% stake in Swan Maritime, which was established with Maritime Fruit to own and charter ships built by Swan Hunter and to sell ships to independent owners. Reservations about the company and its policy and the extent to which British shipyards had come to depend on it do not rely solely on the benefit of hindsight - in March 1973 The Observer published a special article on Maritime Fruit which argued: 'But a close look at Maritime suggests that it is far from wise that the future of British yards should be so dependent on orders from one group'.¹⁴ The article pointed to Maritime Fruit's previous cash shortage, lack of information about who was chartering some of the tankers which were to be built, and the extent to which profits in 1972 had depended on a British tax postponement device. The government was involved in the new orders to the extent that it had to give guarantees for loans to finance the orders; to have refused to have given these guarantees would have been to deny the shipbuilding industry what seemed to be an opportunity for expansion.

After the oil price rise it was inevitable that Maritime Fruit would get into difficulties, and from autumn 1974 onwards the company tried to stave off bankruptcy. Three of the tankers ordered from

14. Observer, 18 March 1973.

Harland and Wolff were cancelled at the end of 1974. Nine of the thirteen options held by Swan Maritime to build ships at Swan Hunter were cancelled. Talks involving the company, shipowners, the government and banks were initially aimed at renegotiating loans and trying to avert the seizure of ships because of default on payments. However, seizure of some ships did take place in 1976, including six seized by the British government. Talks continued through the summer of 1976 about transferring the ownership of some of Maritime Fruit's refrigerated ships as a way of reducing the company's debt. One interested company, American-owned Sea Containers, sought government support for its rescue plans, claiming that the government's financial exposure through loans and guarantees would otherwise be £104m. Later negotiations centred on the attempt by Cunard to gain control of the remaining British-registered ships of the Maritime Fruit fleet. Apart from its involvement through credit guarantees, the government was also concerned in talks about the future of Maritime Fruit to avert the employment consequences of further cancellations of orders from British yards.

7.5.2 Other developments

The dramatic fall in shipbuilding orders after 1973 (illustrated in fig. 6.1) meant that despite orders accumulated in the boom a number of shipyards were beginning to run short of work by 1976. Despite signs of a slight rise in orders in 1976, the inflow of new orders was less than the rate of completion of old orders. The shining exception was Austin and Pickersgill, which continued to attract orders for its SD14 design; however, the company did receive its first injection of public funds in the form of a £9m loan. The government stepped in to plug some of the gaps in order books: Swan Hunter's difficulties resulting from the cancellation of orders by Maritime Fruit were

ameliorated by the placing of contracts for a destroyer and an anti-submarine cruiser. Perhaps the most bizarre rescue of a shipbuilding company was that of Robb Caledon, which got into difficulties in 1975 because of a loss resulting from labour problems and cost overruns. The company was saved by an injection of £2.5m guaranteed by none other than the Post Office, whose involvement arose from an order for two cable repair ships from the company.

The shipbuilders' opposition to nationalisation did not prevent them from seeking government involvement in the form of increased general assistance for the industry. General assistance did come in 1975 as part of a scheme designed to cushion the effects of rising costs on export contracts for capital goods. Exporters or buyers were expected to bear cost increases of up to 10% but the government would cover 85% of cost increases within a 10% band above that level. However, because the scheme applied only to new contracts and few new orders for ships were being placed, it had little immediate impact. The scheme was extended in 1976 to cover orders from British shipowners placed in British yards.

The specialist warshipbuilders did not suffer from the collapse in merchant ship orders and were normally better sheltered from the effects of inflation in their contracts with the Ministry of Defence. However, problems of a different sort did occur. Both the Expenditure Committee and the Public Accounts Committee drew attention to a number of severe delays in warship construction, arising in part from modifications requested by the Ministry of Defence, and the associated increases in costs.¹⁵ In particular, the Public Accounts Committee criticised the Ministry of Defence over a provision for additional payments for

15. HC 155, Session 1975-6, paras. 23-7; HC 556, Session 1975-6, paras. 1-14.

exceptional dislocation and delay; Britain's principal warship-builders had successfully claimed nearly £23m in additional payments from the Ministry of Defence.

7.6 NATIONALISATION PROPOSALS

The Labour Party's proposals to nationalise the shipbuilding industry were developed in Opposition between 1970 and 1974 in conjunction with the TUC and the CSEU. Discussion documents were exchanged between the Labour Party and the trade unions on such issues as compensation terms, initial capital, worker participation and the future structure of the industry. The proposals as agreed between the Labour Party, the TUC and the CSEU were set out in 1973 in a pamphlet entitled Nationalisation of Shipbuilding Ship-repair and Marine Engineering.¹⁶ This listed five grounds for nationalisation: (1) no other industry had failed to increase its absolute output for twenty-five years in a period when world output had grown fourfold; (2) no other industry, with the exception of the aircraft industry, had received so much public finance and support; shipbuilding would continue to require that support; (3) few other industries had failed to modernise and re-equip to the disastrous degree of shipbuilding and shiprepairing; (4) the history of labour relations in the industry, despite recent improvement, had been poor; (5) the coming few years would continue to be difficult for shipbuilding internationally; the industry needed a clear and firm national strategy, which could only come from a nationalised shipbuilding organisation.

The SRNA launched a publicity campaign designed to improve the industry's image and to counter the threat of nationalisation.

16. Labour Party, 1973.

However, the timing was far too late to have any effect; the February 1974 election campaign was already under way before the first advertisement appeared. The SRNA's campaign therefore had some of the characteristics of 'fire brigade' campaigns, which are generally less likely to be effective than preventative or long-term campaigns to promote a favourable image.¹⁷

In August 1974 the Labour government reaffirmed its commitment to nationalising shipbuilding, shiprepairing and marine engineering and published a 'discussion paper' which was to form the basis of consultations with interested parties. All major shipbuilding companies were to come under the new nationalised corporation except Harland and Wolff, which was to remain under the Northern Ireland Office. Marathon, the oil rig company which had taken over the Clydebank yard, was not included, an exclusion which later proved of great parliamentary significance. The SRNA's response was to offer what was essentially a corporatist approach: a Shipbuilding Council would be established through which government, trade unions and shipbuilders would develop and administer a national shipbuilding policy, including the allocation of state aid. With the return of a Labour government in October 1974 with an effective majority (which showed signs of disappearing by 1976) the SRNA, though still opposed in principle to nationalisation, began to accept it as inevitable and concentrated on trying to improve the terms.

In March 1975 the government announced its intention of bringing in a Bill to nationalise the aircraft and shipbuilding industries (including shiprepairing and marine engineering). Compensation was to be based on the average value of quoted securities during the six months

17. Finer, 1966, pp.93-101.

ended 28 February 1974 (the date of the general election); where this did not apply, valuation would be determined as though there had been quoted securities. These terms were later attacked by shipbuilders as relating to a depressed period in the stock market; the effect of the compensation terms was not very clear since few of the shipyards were quoted as 'pure' shipbuilding companies. The Bill was introduced in the Commons in May 1975, but because of the pressure of other legislation it was postponed to the following session. The Bill was reintroduced at the beginning of the 1975-6 Session, minus Drypool, but with the same compensation terms, despite the delay.

The government's proposals set a limit of £300m for capital and loans from the National Loans Fund for British Shipbuilders. The amount which would be required for compensation had still not been worked out, however. The Bill required British Shipbuilders to have full regard to the need to promote industrial democracy so that the workers would be entitled by law to be involved in decisions affecting their jobs; the new nationalised body was seen as being different from the traditional nationalised industries. During the committee stage of the bill the government also made it clear that it expected the industry to have a decentralised structure with individual yards retaining a considerable degree of autonomy. British Shipbuilders, as such, would have a staff of only about 100. One still unresolved issue is the location of the headquarters of the new body. The government had originally committed itself to putting the headquarters in an assisted area with a shipbuilding background, but the organising committee of British Shipbuilders, displaying a certain degree of awareness of the location of political power in Great Britain, wanted the headquarters to be in London. All the financial and political institutions with which British Shipbuilders would have to deal are in

London, as are the head offices of many shipowners.

As usual for such bodies, the names of those who would serve on the board of British Shipbuilders were announced in advance of final parliamentary approval of the relevant legislation, though on this occasion this was not a formality. The chairman, Admiral Sir Anthony Griffin, until then Controller of the Navy, and the chief executive and deputy chairman, Mr. Graham Day, chief executive of Cammell Laird, were named as early as December 1975. Subsequent appointments were announced during 1976.

The passage of the government's Aircraft and Shipbuilding Industries Bill did not conform to the usual by which a Bill moves smoothly through second reading, committee and report stages in which only minor or clarificatory amendments are made, and a set-piece debate during the third reading. In the first place, the Bill set up a Commons record by being fifty-eight days in committee. More importantly, on 26 May 1976 between the committee and report stages the Speaker accepted the contention by a Conservative backbencher, Mr. Robin Maxwell-Hyslop, that an oil platform constructed by Marathon was a 'ship', and that since Marathon was not included in the Bill the Bill was hybrid. (When it took over the Clydebank yard Marathon had been given an undertaking by the Conservative government, backed by the Labour Opposition, that the yard would not be nationalised). Under the procedure for hybrid Bills the Bill would have gone to a Select Committee where companies affected by the legislation could have petitioned for equal treatment with Marathon. However, the government decided to put a motion the following day which would avoid having to put the Bill through hybrid procedure. On a Conservative amendment to the motion there was a tie and the Speaker, in conformity to custom, cast his vote against the amendment; however, according to the same

custom the Speaker would have voted against the government motion if there had been a tie on the next division. This did not arise, as a government whip who had a pairing arrangement was instructed to vote and the government scraped through with a single vote. This provoked uproar in the House and the suspension of communication between the whips' offices.

In a conciliatory gesture, the government first of all postponed further consideration of the Bill and then, following discussions between the Prime Minister and the Leader of the Opposition, agreed to hold a rerun of the controversial vote on 30 June (after the return of a Labour MP as a result of a by election). However, on this occasion the Scottish and Welsh Nationalists abstained as a result of a deal by which the government agreed to consider introducing an amendment to ensure the creation of 'a recognised Scottish entity' within British Shipbuilders and assurances about Welsh shiprepairing (later denied by the government). The government would probably just have scraped through even with nationalist opposition, but this could not have been known in advance. The government's amendment when it was published provided for British Shipbuilders to seek the largest possible degree of decentralisation of management and decision taking to separate profit centres in shipbuilding and shiprepairing areas, including Scotland and Wales. This failed to satisfy the nationalists, who announced their intention of voting against the third reading. The government, reinforced by another MP returned by a by-election, won a vote on 20 July to guillotine the Bill; motions to guillotine four other Bills were passed on the same day - an indication of the extent to which the government's legislative timetable had been disrupted as a result of the dispute. The Bill finally passed its third reading

on 29 July by a majority of three.

However, the Bill ran into further difficulties in the House of Lords. Amongst other things, Lords amendments curtailed the Secretary of State's powers to intervene, made owners' compensation subject to arbitration and exempted from nationalisation the twelve shiprepairing companies and the three specialist naval builders. All these amendments were overturned in the Commons, some by the narrowest of margins. When the Bill again returned to the Lords, the only amendments they insisted on reinstating were those dealing with shiprepairing. However, the government refused to allow the Bill to go forward without the inclusion of shiprepairing, and after shuttling backwards and forwards between the Lords and the Commons in the dying days of the 1975-6 Session, the Bill lapsed when Parliament was prorogued on 22 November 1976.

The government's intention was to reintroduce the Bill in December 1976, a year after the second reading of the 1975-6 Bill. Under the Parliament Act 1949 the Lords would not be able to exercise a veto on the Bill or any part of it. However, it is by no means certain that the government will be able to ensure the passage of the Bill early in the 1976-7 Session. First of all, the government may lose its effective majority in the Commons as a result of deaths or by-election defeats and be defeated on the Bill or parts of it. Secondly, because of the legislative chaos likely to result from the domination of the session by the Devolution Bill, the Aircraft and Shipbuilding Industries Bill (mark three) may be delayed if the Lords sit on it by delaying their consideration of it. Whatever the arguments for and against nationalisation itself, the effect of the prolonged argument on the issue (over three years at a minimum) can have done nothing to increase the confidence of the shipbuilding industry or its willingness to take

long-term decisions.

The curtailed passage of the Bill to nationalise shipbuilding (and the aircraft industry) was characterised by a number of novel features: the action of a backbencher in throwing the government's timetable into confusion, the breaking of a pairing agreement, the temporary suspension of relations between Opposition and government, behind the scenes legislative bargaining between government and minority parties, mass guillotining of bills, the insistence of the House of Lords on an amendment unacceptable to the government, and the subsequent lapsing of the Bill. However, apart from the original technical point which sparked this off, these features were not the result of some intrinsic characteristic of the shipbuilding industry or the Bill, but of the government's lack of a reliable majority. If this lack of a steady majority continues for long we can expect some of these elements to become more common features in the legislative process.

7.7 A SCENARIO FOR THE FUTURE

As Mr. Day, chief executive-designate of British Shipbuilders has admitted, 'Nationalisation per se is not a solution for the British shipbuilding industry's current problems, or for its more traditional one'.¹⁸ Bearing in mind the wide range of influences outlined in chapter 1, the nature of ownership of the industry will arguably make little difference - especially since the industry was already half state-owned already. In principle there could be certain economies of scale in marketing and design by having a single national organisation, but many of these hypothetical advantages are unlikely to materialise fully under the decentralised structure proposed. Worker participation may give rise to hopes of changes in attitudes, but

18. Times, 31 March 1976.

Harland and Wolff reminds us that worker participation does not necessarily imply profitable operations.

Disturbingly, the formation of British Shipbuilders bears many points of resemblance to the formation of UCS. A collection of yards with different styles of management and varying degrees of profitability are being lumped together under the same organisation. Redundancies in some yards will clearly be needed - as the Industry Secretary himself has emphasised - but, presumably in order temporarily to placate the unions, where, when and how large these redundancies are to be has not been specified, and therefore no specific measures to absorb them as they occur are being prepared. The nationalised body will start life without a corporate plan - it is not expected to begin until 1978. In a report issued in August 1976 the Public Accounts Committee called for a 'realistic and comprehensive strategy' before further state support is provided.¹⁹ However, this is just wishful thinking. Decisions are clearly going to have to be taken about the future of individual yards before the corporate plan is ready.

It can be expected that these decisions will be influenced by political considerations and that the government will be unwilling to leave them solely to British Shipbuilders. Indeed, Mr. Day has made it clear that in the case of unprofitable operations 'it will not be us [British Shipbuilders] who close any yards'.²⁰ The state body's role would be to discuss the issue with the government. If the decision was to continue operations in a particular yard, the role of British Shipbuilders would be to act as administrator.

19. HC 556, Session 1975-6, para. 33.

20. Times, 28 October 1976.

If it is accepted that governments seek particularly to avoid large-scale redundancies in areas of high unemployment then it can be expected that the government will be unwilling to let all the yards making up any one pre-nationalisation firm close at the same time. For example, the government is more likely to close one of the Scott Lithgow yards and the Scotstoun yard at Govan Shipbuilders rather than to close down Govan altogether. It can be predicted that a number of the remaining yards will require what will amount to a government subsidy, including yards which have already received considerable amounts of government assistance. In addition, because the problem in the mid 1970s is one of shortage of orders as well as lack of competitiveness the government may become involved in the speculative building of ships. When the corporate plan eventually emerges, it can be guaranteed to show the need for considerable amounts of public funds.

In conclusion, the nationalisation of shipbuilding can certainly not be expected to remove the industry from the government's political agenda.

CHAPTER 8

INFORMATION IN THE POLICY PROCESS

8.1 INTRODUCTION

This chapter examines the role of the collection and appraisal of information in the shipbuilding policy process. It is concerned not only with the collection of information to assist policy formulation, but with monitoring the effects of government policy during the implementation stage and the relationship between monitoring information and information used in policy formulation. In carrying out this examination, attention will be paid not only to the technical aspects of information requirements but also to their political implications.

8.2 REACTING TO PROBLEMS AND ANTICIPATING PROBLEMS

In chapter 1 it was suggested that problems confronting governments could be analysed in terms of two aspects: (1) the situation which the government wishes to avert; (2) the causes of the situation which the government wishes to avert. Information about the first aspect of a problem (e.g. the number of men about to be made redundant) is relatively easy to come by compared to information about the second aspect. However, British governments do not appear to be particularly good at spotting even this first aspect of a problem in advance. Even when the government is aware that a company is in difficulties, as with UCS in 1971 and Court Line in 1974, it may be surprised when the company announces that it is in immediate danger of collapsing altogether. This lack of anticipation is not confined to involvement in shipbuilding; the Expenditure Committee severely criticised the government over the rescue of the Chrysler car company

at the end of 1975: 'The Department's failure to see, - and certainly to be prepared for the results of - some very plain indicators of [Chrysler UK's] intrinsic weakness is startling in view of the close contacts they told us they maintained with the company'.¹ The committee concluded that the government had been at a disadvantage throughout the negotiations, partly because of the Chrysler Corporation's greater awareness of the situation.

Once a firm is in immediate danger, the government hardly has to seek out information that there is a problem - it will be asked to take action by management, shop stewards and local MPs. Indeed, without these representations the problem could hardly be defined as a political one. However, the need to take a quick decision may leave the government with little time to assess the nature or scale of the problem or analyse the implications of various kinds of intervention. The government may hold urgent talks with representatives of the firm concerned, but it may not have the time to assess the reliability of the information provided by the firm or to seek outside advice. Just how unreliable such information can be, and how quickly it can be shown to be inadequate was illustrated by the politically embarrassing Court Line affair (see section 7.2). The extent to which the government has to rely on information at such times from a management which has got into difficulties is an example of a more general problem which governments face when seeking information about problems. Governments can rarely collect all the information they need directly: 'our interpretations are seldom based on our own observations; they rely heavily on the interpretations offered by others. Our trust in the interpretations is clearly dependent on

1. HC 596-I, Session 1975-6, para. 104.

our trust in the interpreters'.²

One argument in favour of adopting a more anticipatory approach is that it is only in this way that there will be sufficient time to analyse the causes of a problem and devise solutions to treat these problems (or to avoid them) rather than treat only the symptoms. An understanding of the economic environment in which the industry operates is necessary if proposed solutions are to be appropriate. It is hardly original to suggest that governments should seek more information before taking action; in 1918 the Haldane Committee concluded:

'after surveying what came before us, that in the sphere of civil government the duty of investigation and thought, as a preliminary to action, might with great advantage be more definitely recognised. It appears to us that adequate provision has not been made in the past for the organised acquisition of facts and information, and for the systematic application of thought, as preliminary to the settlement of policy and its subsequent administration'.³

However, there are both technical and political constraints on the extent to which an anticipatory approach and the advance collection of information are likely to be carried out by the British government. On the technical or administrative side, the government could in principle try to anticipate problems. At the beginning of chapter 3 it was suggested that there were indicators of performance, particularly share of world market, which could provide a warning to the government of possible future problems and the need for further investigation. At a conceptual level, this is similar to the mixed

2. March and Olsen, 1975, p.155.

3. Cd 9230, para. 12; quoted in Chapman, 1973, p.187.

scanning approach advocated by Etzioni, in which a broad scanning of all options is combined with detailed analysis of areas revealed by the broad scanning as requiring in-depth examination.⁴ However, even after focussing on shipbuilding as a potential problem industry, the information requirements for adopting a planning approach to policy for the industry would still be formidable. The type of information required for shipbuilding policy planning and the characteristics of that information are set out in table 8.1. It can be seen that this information attempts to take into account all the various influences on the industry illustrated in fig. 1.4.

Table 8.1 Information for policy planning

Types of information:

1. Environmental information describing the social and economic aspects of the 'climate' in which the industry operates or may operate in the future. This information must take into account the effects of other domestic government policies on the industry.
2. Information about actions by other governments describing the past, present and likely future level of involvement by other governments.
3. Information about the industry indicating the industry's own strengths and weaknesses, particularly those factors making for success or failure in that industry.

Characteristics of information:

1. Information for planning should not be compartmentalised by functions or institutional boundaries.
 2. The information should cover long time periods and show trends. It should attempt to assess future developments.
 3. Non-financial and non-statistical data are important.
 4. Not concerned with minute details.
-

Note: Cf. Daniel (1971, pp.64-70)

4. Etzioni, 1967.

As we have already seen in section 1.4.2 and throughout the subsequent chapters, forecasting information quickly becomes out-of-date. This in itself does not rule out a planning approach, but it does require that information for policy planning must be continually reviewed rather than collected only at long intervals. The collection of information for planning is, of course, only one type of information required in the policy process. Information about the detailed effects of a policy will be necessary if adjustments are to be made to the way the policy is being implemented to ensure that maximum progress is being made towards fulfilling policy objectives. The types of information required for monitoring the effects of a policy in this way are set out in table 8.2.

Table 8.2 Information for monitoring

Types of information:

1. Statistical information. Management accounts, production statistics, cash flow statistics, profit figures, sales figures.
2. Non-statistical information. State of labour relations, quality of management, effects on local community.

Characteristics of information:

1. Information for monitoring should keep to organisational lines so that performance can be measured better and faults more readily identified.
 2. The information will normally cover short time periods. It will largely relate to the past, but should enable future problems to be identified.
 3. Non-financial and non-statistical data are important.
 4. Largely concerned with detail.
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As well as providing information for adjustments to the detailed application of a policy, monitoring information would also be used to enable the identification of design faults in the original

plan and the alteration of objectives or budgets. Similarly, those responsible for monitoring and evaluation would need to be aware of the information used in policy planning to enable assessment of the extent to which deviations from desired performance are due to exogenous changes in the environment, poor performance within the firm, or inadequate impact of the policy whose effect is being measured. This would complete the idealised feedback model for information in a planning approach illustrated in fig. 8.1.⁵

When we turn from this idealised model to the real world in which it would have to be applied, certain difficulties become apparent. First of all, some of the desired information may not be available - the actual effects of shipbuilding closures may not be known because the regional multipliers are not known. Secondly, the collection and appraisal of the information which is available will represent a diversion of resources which might have been used to help the industry itself.

More decisive in practice than the technical difficulties of developing an information system to assist a planned approach are the political factors which militate against the anticipatory approach which is a necessary prelude to planning. At any given time the total demands on the government's time and economic resources will be far greater than its ability to meet them. There is a temptation for governments to concentrate on current problems requiring action now rather than hypothetical problems where any adverse political effects of not taking action now will not occur until the future - and perhaps affect a different party. Because of the frequent reshuffling

5. For an analysis of the role of feedback models in political science, see Deutsch, 1966.

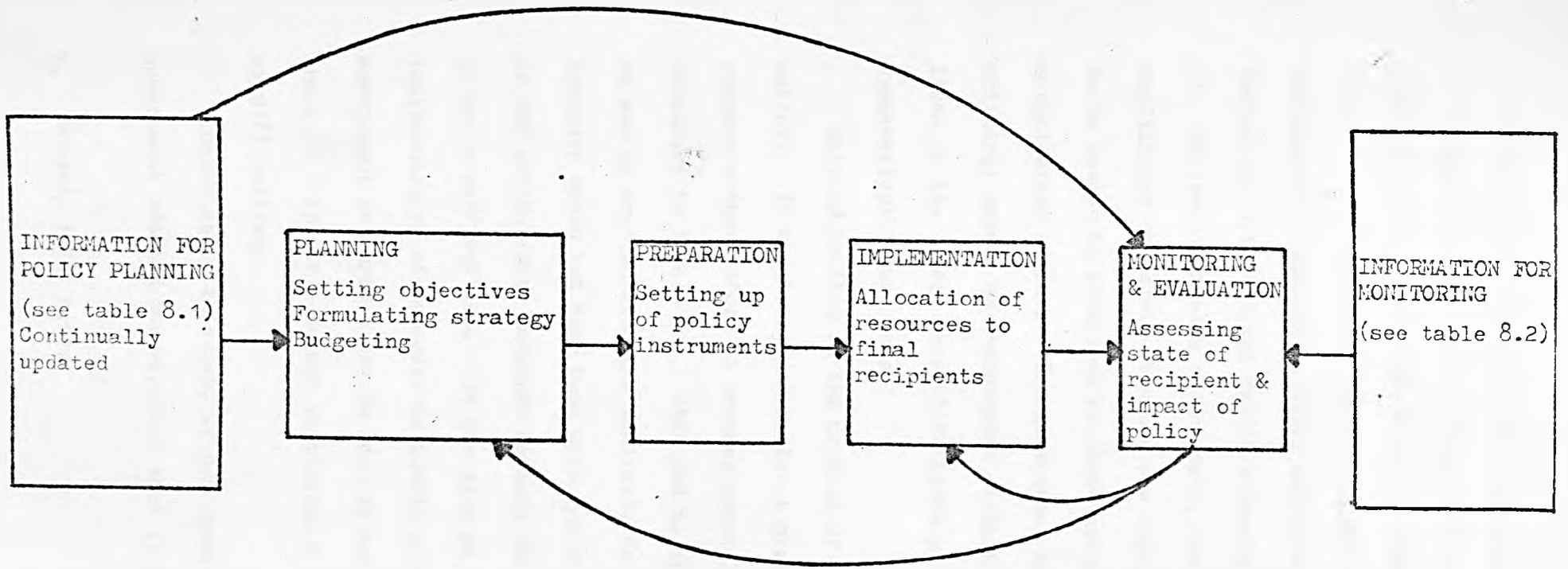


Fig. 8.1 Idealised model of information in a planning approach

of cabinet posts, an individual minister also faces the temptation to concentrate on issues with an immediate impact since 'He knows that he will probably not be in the same post long and may therefore not be held personally responsible for the consequences of his policies'.⁶ Similarly, civil servants are likely to have moved on before any hypothetical crisis actually materialises.

On the other side of the coin, the rewards for foresight for both politicians and civil servants are negligible, and are just as likely to be reaped by others as by those actually responsible for the anticipatory action. The government is likely to regard the current political agenda as overcrowded without seeking to place further items on it. Real present problems will tend to crowd out hypothetical future ones.

Related to this is the problem of mobilising support for a policy. It may be necessary for a problem to become a real and present danger before it becomes possible to mobilise the support necessary to tackle it. This can be true within the government: as we saw in section 2.3, the Admiralty felt in the 1950s that the Treasury would not have been prepared to help with the reconstruction of the shipbuilding industry because the industry was not considered to be in difficulties. It can also be true of support for implementation of measures to tackle a problem: cooperation by management and unions may be seen as more likely if it is agreed that there is a crisis - though as chapter 5 showed, even then there may be difficulties.

Looked at in this way, we can understand why the Conservative government adopted the approach that it did in the late 1950s and

6. Headey, 1974, p.99.

early 1960s. Even though there was increasing evidence that the industry would be in difficulties, the government chose not to intervene, partly because it had other problems to cope with, partly because it hoped that the labour market would cope with unemployment and partly because it hoped that the problem would never fully materialise. Only once the immediate problem had become obvious by 1963 did the political costs of doing nothing seem too much.

By the mid 1960s the question of anticipating the shipbuilding industry as being a problem had become rather irrelevant, since it has been a continuous problem ever since. There might still have been a case for attempting to spot future problem firms within the industry, but this approach was not adopted (see particularly section 5.3.6). If an anticipatory approach were to be adopted, an attempt would be made to identify firms at risk and direct aid to them in advance of any crisis. However, there are a number of difficulties with this approach. In the first place, it is impossible to be completely accurate in identifying firms at risk or quantifying the aid required. Secondly, discriminatory subsidies channelled only to firms considered to be at risk would arouse the ire of other firms in the industry, while indiscriminate subsidies to all firms in an industry are wasteful and most likely to be objected to and possibly matched by foreign competitors. As EEC reaction to the Leyland and Chrysler rescues illustrates, rescue operations are regarded with less disfavour than subsidies devised to avert the need for such rescue operations in the first place.

This section has set out an idealised model of the information the government would need if it were to be at all successful in tackling the causes of the shipbuilding industry's problems, as well as examining some of the political reasons why such an approach might not

be adopted. The following sections will examine the ways in which the government did collect and use information about the shipbuilding industry and assess the importance of information at various stages of the policy process.

8.3 THE ROLE OF INQUIRIES

8.3.1 Types of inquiry

Government-sponsored inquiries are one of the ways in which the government has sought to collect information about shipbuilding, though as will quickly become clear, these inquiries have not been solely to do with the collection of information. There has recently been a considerable amount of interest in the general role of inquiries in the British political system, though this has concentrated on their role in policy making rather than in the policy process as a whole.⁷ The recent literature has concentrated on royal commissions and departmental committees, though this is itself an improvement on earlier work which considered only royal commissions.⁸ However, this study of shipbuilding has shown that there are other forms which government-sponsored inquiries can take, and the role of consultants employed by the government has been particularly important. For the purposes of this study it is appropriate to divide inquiries into four types.

1. Independent committee of inquiry. Some of the advantages and disadvantages of this type of inquiry have already been touched on in relation to the Geddes Committee in chapter 4. By definition it is composed of people with little specialist knowledge of the industry,

7. See Chapman, 1973; Rhodes, 1975; Cartwright, 1974. The much earlier Wheare, 1955, also has a chapter covering the whole range of committees to inquire (chapter IV).

8. E.g. Hanser, 1965.

and almost as soon as they have acquired some expertise they have to report and are disbanded. However good the committee, at least some of its recommendations are likely to be politically naive and committee members are unlikely to be fully aware of the problems of implementing its proposals. An advantage of this type of committee is that its independence may lead it to identify problems which those involved in the industry are reluctant to discuss. Independent committees can also perform a useful function in educating those making decisions affecting the industry. (This is similar to the 'appreciative' role which Vickers describes royal commissions and similar bodies as having).⁹ The Geddes Committee provides a very good example of this kind of inquiry. For some years after its publication its report was regarded almost as a bible for the industry. However, there are also dangers in this - people may pay insufficient attention to changes affecting the industry since the report was published.

2. Intra-industry inquiry. The SAC subcommittee on prospects was an example of inquiry of this type (see section 3.4). The disadvantages of this committee - disagreement between different interests on the committee and the politically unrealistic nature of many of its recommendations - are common to all committees of this sort: 'A Commission selected on the principle of representing various interests starts with a serious handicap against the probability of harmony in its work, and perhaps even of practical result from its labours'.¹⁰ Chapman suggests that it may be necessary to ensure that representatives of interests whose cooperation is necessary for

9. Vickers, 1965, p.50.

10. Cd 5235, para. 15; quoted in Chapman, 1973, p.179.

implementing policies are included in a committee, but with the SAC inquiry any advantages of this kind were outweighed by the lowest-common-denominator nature of the report.¹¹

3. Departmental inquiry. This refers to an examination of the industry by civil servants within a department with a view to preparing a report to be circulated to the industry, e.g. the DSIR Report (see section 3.3). Such inquiries should therefore be distinguished from internal departmental reviews of shipbuilding policy such as seem to have taken place in 1963-4, 1969-70, and 1971-2. The main advantages of this type of inquiry are that the department can draw on its own fund of information (much of the evidence to other types of inquiry comes from government departments), and in drawing policy conclusions will be more aware of the difficulties of implementing policies. The disadvantages are that any report produced may not seem to be objective, it may be politically embarrassing to have publicised strong criticisms of the industry made in a report, and it may prove difficult to secure acceptance of the report by the industry. Above all, a departmental inquiry runs the risk of failing to cover all influences affecting the industry or to take a sufficiently long-term approach (see section 8.1). However, as was suggested in section 3.3, the DSIR Report can be regarded as one of the more successful reports in shipbuilding because its objectives were limited, realistic and capable of being influenced to a high degree by the government itself.

4. Inquiries by consultants. There are really two different functions which can be performed by reports from consultants (a term used here to include firms of accountants, merchant bankers and

11. Chapman, 1973, p.179.

management consultants): (1) reports which could equally well have been prepared by committees, e.g. the Booz-Allen Report (see chapter 6); (2) work which because of the technical nature of the subject matter is more appropriately carried out by consultants, e.g. the Hill Samuel Report on the formation of a new company to take over the UCS yards (see section 6.3.6). In general, reports from consultants are less likely than other types of inquiry to make specific policy recommendations - they are more likely to set out the implications of alternative courses of action. For the government such inquiries have the advantages of drawing on the acknowledged expertise of the consultants and having an air of objectivity. Since consultants can frequently produce a report more speedily than a committee this form of inquiry is particularly suitable when speedy advice rather than procrastination is sought. In addition to being employed directly by the government, consultants may also be employed by committees of inquiry to assist them in the more technical side of their work. The Geddes Committee used a firm of consultants in this way to provide them with a demand forecast (see section 1.4.2).

8.3.2 The purposes of inquiries

As well as discussing different types of inquiry we can analyse the different roles which inquiries can play. Each of the recent writers on the subject of committees of inquiry has suggested a number of purposes which committees or commissions can fulfil. Chapman lists the formulation of policy, a political role in the postponement to an indefinite future of decisions on embarrassing questions, the appreciation of a situation by the exposure of what the committee regards as the relevant facts, and an educational role in bringing to the attention of the public some of the issues involved in a

particular policy area.¹²

Cartwright analyses the purposes of committees in terms of the extent to which they are concerned with obtaining information, advising the government on what sort of policy ought to be adopted, and making recommendations for action.¹³ He defines seven categories of purposes for committees: (a) to obtain information; (b) to obtain information and formulate policy; (c) to formulate policy; (d) to formulate policy and propose action; (e) to propose action; (f) to obtain information and propose action; (g) to obtain information, formulate policy and propose action. The Geddes Committee was an example of the last category, since it combined all three functions.

Rhodes, in a chapter on the role of committees of inquiry in British government, adopts an interesting approach, since he seeks in his classification to link the reason for the use of committees with the probable consequences in terms of the ways in which governments react to their reports.¹⁴ His fourfold classification is set out below, with a discussion of the relevance of each category to ship-building inquiries.

1. 'Committees set up reluctantly by a government under pressure, with the object of staving off that pressure; committee may well fail to agree, but in any case reports likely to be accepted to the extent that they recommend no action or only minor action'. This sums up exactly the origins and fate of the SAC Report as described in section 3.4: the government set up the inquiry as a result of its embarrassment over the resignation of Sir Graham Cunningham and did hardly anything to implement the report's recommendations.

12. Chapman, 1973, p.184.

13. Cartwright, 1974, pp.101-4.

14. Rhodes, 1975, p.192.

2. 'Committees set up to postpone an awkward issue; reports likely to be accepted to the extent that they indicate a solution not likely to be too troublesome'. There were no shipbuilding inquiries which fell clearly into this category, but if it is widened to include inquiries which were set up as a substitute for more decisive action, the 1963 MPBW inquiry into building components could be considered to fall into this category, though the report itself was of a highly technical nature (see section 3.5).
3. 'Committees set up because the government is in doubt about how an issue should be resolved; reports likely to be accepted to the extent that an acceptable solution is possible'. The Geddes Committee provides an example of this type; the government accepted the need for action of some kind but wanted advice on the approach which should be adopted. As we saw in chapter 4 it was happy to adopt the general approach suggested by Geddes. The DSIR Report could also be considered to fit into this category.
4. 'Committees set up where government is fairly clear what course to adopt but needs independent backing before doing so; reports likely to be accepted to the extent that committee provides this backing'. The Peat Marwick Mitchell Report (see section 3.4.2) is the best example of this kind of inquiry since it was clear that the government wished to take no action on credit facilities and commissioned the report in the expectation that it would show that lack of credit facilities had not been an important factor in the loss of orders by British yards. The Booz-Allen Report (see section 6.6) also fits into this category, since although the government was far from clear about its future policy at the time the report was commissioned, its objective was clearly to provide backing for the approach that it did decide to adopt rather than obtain advice on what that approach should

be. It is interesting to note that both the reports in this category came not from committees of inquiry but from consultants, suggesting that this form of inquiry is the most suitable for governments which want to have 'independent' back-up evidence rather than policy advice.

8.3.3 Role of inquiries in the policy process

The pattern that emerges from this examination of inquiries is one of a variety of forms of inquiry and a variety of purposes which they were expected to fulfil. They were not used as a systematic method of collecting and appraising information relevant to policy making: their irregularity and the differing extent to which they attempted to collect information confirms this. Despite the difference in the types of inquiry they did have certain features in common. With the exception of the DSIR Report all were ad hoc arrangements with no continuing responsibility for reviewing their conclusions - even the SAC did not attempt to follow up the report of its subcommittee. The information contained in a report may quickly become outdated in an industry such as shipbuilding which is influenced by a large number of factors subject to rapid change. Insofar as the initial inquiry was a genuine exercise in collecting facts in a way not otherwise possible, this problem can only be resolved by setting up a further inquiry.¹⁵

When a rapidly changing economic environment is combined with a separation between policy recommendations (Geddes Committee), policy decision (the Board of Trade and the Ministry of Technology) and policy implementation (the SIB and the Ministry of Technology) even the best report is likely to be left behind. Ad hoc inquiries by

15. See also Dell, 1973, p.166.

apolitical bodies unaware of the political and administrative problems of implementation cannot be a substitute for continuous review. Edmund Dell, who was for a while a junior Labour minister at the Ministry of Technology, later said of the Geddes Report:

'Fed into a continuously learning administrative machine it would have done some good. It would have alerted officials to important aspects of the industry. It would have improved the government's performance as 'sponsor' of the industry. But it became a bible, a substitute for thought, a point of continuing reference when changed circumstances had made its recommendations much less relevant. In short, instead of an aid to learning it became a block in the way of learning.

The way to learn is to be involved in day-to-day administration'.¹⁶

If the value of information and advice is reduced if it is not related to knowledge of what is involved in implementing proposals, then so also is the value of information about the detailed application of a policy if it is not fed back in a systematic way to those responsible for reappraising the policy for the industry.

Other aspects of the role of inquiries also take on a different light when viewed in terms of their place in the policy process as a whole rather than only their contribution to policy making. For example, one of the reasons for setting up the Geddes Committee rather than carrying out the inquiry within the Board of Trade was the department's workload. However, the temporary manpower gain in setting up a committee looks less impressive when we find that the total number of civil servants plus SIB officials looking after the industry expanded markedly during the implementation stage (see section 9.2.4).

16. Dell, 1973, p.170.

Although the Geddes Report in particular can be seen as a brave attempt to adopt a longer term approach than simply reacting to individual crises, the setting up of inquiries is generally a reactive rather than an anticipatory act. The setting up of such an inquiry may be a reaction to political embarrassment (the SAC subcommittee) or to a clearly difficult situation for the industry where the government is unsure what action to take (the Geddes Committee). The role of inquiries can be seen, not so much as one of providing information for policy planning, as of the presentation of information and ideas which improve the chances of mobilising political support for policy proposals.

8.4 INTEREST GROUP REPRESENTATIONS AND ADVISORY COMMITTEES

Information from interest groups in the industry provides a much more continuous source than government-sponsored inquiries. Ad hoc contacts between SRNA and the industry department took place as frequently as circumstances required; they were, for example, fairly frequent during the period in which the Booz-Allen Report was being prepared. Most of these contacts were between full-time officials of the SRNA and civil servants in the industry department (interview with former director of SRNA). More rarely, the president or other elected officials met ministers. Representations to the government about foreign government subsidies was part of the regular dialogue with the industry department; SRNA would tell the department if it thought that international agreements about credit terms had been breached. From time to time the Joint Industry Consultative Committee (JICC) which represented SRNA and the shipbuilding unions, would make a joint approach to the government. SRNA did on occasion coordinate with the Chamber of Shipping but, as was shown in section 5.5, the two industries are

often in competition for funds.

In addition to the ad hoc representations, there has for most of the period been a formal advisory committee for the shipbuilding industry. A PEP study on advisory committees in British government lists four advantages which advisory committees have over ad hoc arrangements: regularity, comprehensive personal contact, convenience, and formal commitment.¹⁷ While the last three do appear to apply to some extent to shipbuilding advisory committees, the first does not. Shipbuilding had no less than three successive advisory committees during the period; the (SBSRC) Shipbuilding and Ship Repairing Council replaced the (SAC) Shipbuilding Advisory Committee, and was in turn replaced by an Economic Development Committee (EDC).

The degree of discontinuity was even greater than this would suggest. Not only did the SAC fail to follow up the report of its own subcommittee, but it virtually ceased to function after the appointment of Vice-Admiral J. Hughes-Hallett as an additional Parliamentary Secretary to the Ministry of Transport. Hughes-Hallett effectively acted as a channel for representations which might otherwise have gone through SAC. With the setting up of the SBSRC in 1967, the SAC ceased to exist. The SBSRC was appointed by the SIB, not by the government, and it was intended to act as a forum for the SIB to keep both sides of industry informed about its activities and to consult them about the state and prospects of shipbuilding, shiprepairing (over which the SIB had no powers) and marine engineering (for the work of the SBSRC see section 5.7.2). The SIB was required to recommend to the SBSRC appropriate machinery to replace the SBSRC's functions following its dissolution at the same time as the SIB. The

17. PEP, 1960, p.86.

chairman of the SIB wanted the role of the Joint Industry Consultative Committee to be expanded to take on these functions, but this was not acceptable to some members of the SBSRC. Because of this disagreement there was a delay of twenty months between the dissolution of the SBSRC and the formation of an EDC for the industry. This period spanned the 1972 Industry Act and the Booz-Allen Report. During 1972 ad hoc contacts between SRNA and the government were not, however, any more regular than when formal consultative procedure existed, the implication being that formal advisory committees perform a role additional to rather than in place of ad hoc representations.¹⁸

Rather than providing a forum for the continuous exchange of information between government and industry, shipbuilding advisory committees have been characterised by a high degree of discontinuity. This is a characteristic which they shared with other institutions dealing with the industry - particularly government departments (see section 9.2).

8.5 MONITORING¹⁹

8.5.1 Introduction

This section discusses the information needed by the government to ensure that its objectives for a particular firm are being achieved and outlines the political implications of monitoring. The concern here is only incidentally with the content of the information collected or not collected by the government (the substantive implications are discussed in chapters 5 and 6). This section deals rather with the methods and problems of the collection and appraisal of information for monitoring purposes.

18. Interview with former director of SRNA. 11 December 1972.

19. Many of the points discussed in this section are also included in Hogwood, 1976b.

The term 'monitoring' has often been used to describe activities connected with the collection and appraisal of information about firms to which the government has given aid, but it can mean anything from a review of quarterly reports to intervention at board level. Monitoring implies a degree of supervision, and information needs should be specified to reflect the degree of supervision intended. If the type of supervision desired is not clearly thought out, then information requirements cannot be properly defined. If no prior thought is given to the action to be taken if performance deviated in particular ways from that desired, then the advantages to be gained from monitoring are lost.

8.5.2 Information within firms

The starting point of monitoring by government departments and agencies is obviously internal monitoring within the firm. Unless the government is to introduce a complete management reporting and accounting system of its own within the firm, information collection by the government can only be as good as information collection by the firm. Collection of information by firms is not, of course, simply a matter of supplying information required by the government; adequate information is necessary for the firm to control its own operations. However, the firm's ability to obtain this internally required information can also have implications for government policy.

The Geddes Report on the industry in 1966 made a number of criticisms of the state of management control information and financial information within shipbuilding firms and listed what it considered essential information.²⁰ In 1971 the Shipbuilding Industry Board published a manual, Accounting and Reporting for Managers in Shipbuilding.²¹

20. Cmnd 2937, especially chapters 14 and 15.

21. SIB, 1971.

This outlined a basic system which defined minimum standards of accounting and reporting for major shipbuilding companies. Six years later, the Booz-Allen Report commented that while budgetary control systems existed throughout the shipbuilding industry in 1972 they were generally limited in scope and effectiveness.²² Long-range corporate or financial plans, so important in assessing the need for government aid, existed in only two companies. Assessment of capital projects was often crude, and, while cash management was more effective than long-range planning, cash forecasts depended heavily on forecast dates of completion for ships and were often rendered inaccurate by failures to achieve expected dates. Even within firms, costs were analysed on differing bases by estimating and financial control departments in several yards; this often resulted in confusion when comparisons were attempted between apparently compatible data. This last point illustrates clearly that inadequate appraisal of information can be a problem not only between organisations, such as a firm and a government department, but also within a single organisation. The system recommended in the Accounting and Reporting manual referred to above was criticised by shipbuilding firms for its complexity and cost, but the Booz-Allen Report found that no company had developed a simpler and cheaper substitute.

These comments in reports sponsored by government departments or agencies clearly indicated deficiencies in the information systems of shipbuilding firms; both government departments and individual firms must have been aware of these criticisms. Stress has been laid here on the information systems of the firms because analysis of

22. Booz-Allen Report, 1973, chapter 17.

monitoring by government departments and agencies alone would give a misleading picture. This might lead to the conclusion that the ineffectiveness of government intervention was wholly the result of inadequate appraisal by the government department or agency, whereas it was due at least in part to inadequate procedures within the firms. But, in turn, the government allowed this state of affairs to continue, partly because the government failed to realise just how inadequate some firms' information systems were and that these inadequacies made it difficult to assess whether government aid was being used effectively. Even where the government was aware of these inadequacies it sometimes faced a dilemma, as the case of UCS illustrated: the government could insist that a firm first installed adequate information systems and thereby ensure that it would go into liquidation, or it could provide aid even when it knew that the firm did not have the necessary systems to ensure that the aid was used effectively.

8.5.3 Monitoring in practice

Effective monitoring does not start after government aid has been put into a firm, but depends on the collection of information and forecasts before the aid is given, both to assess the need for the aid and to measure any deviation from forecast performance. Under the Shipbuilding Industry Act 1967 the SIB had to be satisfied that shipbuilders fulfilled certain conditions before recommending aid. Ministerial approval also had to be obtained before aid could be given, which raises the problem, considered below, of how the minister was to satisfy himself about the applications without duplicating the investigations of the Board. The need for approval also slows down the decision-making process.²³ The 1967 Act did not lay down any

23. Cf. Deutsch, 1966, pp.225-6: 'As an autonomous system grows more complex it may increase the length of channels and the number of stages through which messages must go before resulting in decisions. Ordinarily this may mean increased delay and slowness of response to changing information from the environment'.

procedures by which the SIB was to satisfy itself whether a shipbuilding firm should be granted aid. According to Sir William Swallow, the SIB chairman, the SIB tended to ask for the same information that the managing director of a company would ask for before he would approve an investment by his company - financial figures, production figures, sales and profits figures, etc.²⁴ The SIB asked for outside advice when it felt that the SIB members' own expertise was not relevant, as in the assessment of asset values or financial figures which required an expert accountant.

The Department of Trade and Industry (DTI), the successor department to the Ministry of Technology, was asked in 1972 whether it was satisfied that the department had had adequate information to judge and approve recommendations made by the SIB.²⁵ Sir Anthony Part, the Permanent Secretary at the DTI, admitted that it was very difficult to give an unqualified yes to that question because information clearly did not turn out to be adequate in a number of cases. Seemingly sensible systems of financial control had been set up, but they did not work as well as a number of very well qualified people had thought they would. The department did sometimes have another specialist look at SIB recommendations within the department with the help of the department's own accountants.²⁶ Finally, the Treasury had to give its approval to the granting of aid. This formal 'line of approval' was to some extent short-circuited by SIB officials discussing applications for aid with civil servants in the department before they went to the minister for approval.

If the SIB was given little guidance about how to assess

- 24. HC 362, Session 1968-9, Q.2223-6.
- 25. HC 447, Session 1971-2, Q.2496.
- 26. HC 447, Session 1971-2, Q.1265.

applications for aid, it was given none about its relationships with the firm after aid had been given. Edmund Dell later commented: 'the Board was given extraordinarily little guidance as to how to behave, particularly in the matter of supervising how companies it assisted actually used the assistance they received ... It had no means of ensuring that groups did what was necessary to keep to their own targets'.²⁷

When the SIB was dissolved at the end of 1971 the DTI took over direct responsibility for aid to shipbuilding. The DTI said that where money was lent to a firm the department had a very strong interest in keeping an eye on the fortunes of that firm and seeing that the purposes for which the money was given were being adequately and efficiently pursued. The aim was to ensure that the Exchequer got its money back and that the purposes for which the money was given were achieved.²⁸

There was a difference in the extent to which the SIB and the DTI felt that they had the power to change management personnel as a result of monitoring. The SIB felt that they did not have any power to insist on a change of management, while the DTI said that if they felt that the management of a firm receiving government aid was inadequate they would take steps to improve it.²⁹ The DTI pointed out that the SIB did in fact 'lean on' the management of firms, especially UCS. The House of Commons Expenditure Committee concluded that the SIB regarded it as within their power to change management as a condition of financial assistance, but that once the money had been committed the SIB was unwilling to put further pressure on management.³⁰

27. Dell, 1973, p.169. This confirms the SIB's own view; see HC 347-I, Session 1971-2, Q.453.

28. HC 347-II, Session 1971-2, Q.2354-7.

29. HC 347-I, Session 1971-2, Q.449; HC 347-II, Session 1971-2, Q.2358-60.

30. HC 347, Session 1971-2, para.104.

There seem to have been special problems in devising procedures for monitoring firms in which the government held shares: UCS, Cammell Laird and Harland and Wolff (Northern Ireland government). One of the problems of UCS was the nature of its links with the government. For example, Mr. Hepper, the chairman of UCS, was unable to say to whom he reported!³¹ This situation arose because UCS was what Mr. Hepper called a 'hybrid' - neither pure private enterprise nor nationalised industry.

The history of UCS provides a number of examples of inadequate information being available, (see also sections 5.2.2 and 5.3.2). The aid given to UCS at its inception in 1968 was made available before a corporate plan was drawn up. The dilemma facing the SIB at the time of the formation of UCS was whether to allow a new group to form and new management to take control, or to say that since there were no accurate figures support could not be given. The second alternative would inevitably have led to closure of most of the yards on the upper Clyde. When the corporate plan was delayed early in 1969, the SIB gave further aid to keep the company going until the plan was available. But, in the words of the then Minister of Technology, 'By the time the Corporate Plan could be submitted to the Shipbuilding Industry Board, the progress made so far with the accounting arrangements showed that the company needed more financial support than was originally envisaged'.³² Had better information been available from the start the decisions would have been different - a clear illustration of the importance of the quality of information as an influence on the outcome of political decision-making.

31. HC 347-II, Session 1971-2, Q.2112.

32. HC 397, Session 1968-9, p.250.

The information provided at the time of the UCS corporate plan also turned out to be unreliable, and the government announced a direct loan in December 1969 after the SIB had refused further assistance. On each of the occasions when the SIB had agreed to give grants or loans in 1969 it had made arrangements for investigating the requests, and the Ministry of Technology asked a firm of accountants to report on UCS cash flow forecasting before they made their advance.³³ However, the accountants who had reported in June 1969 had not anticipated that UCS would ask for a further £5m within two months. After the £7m loan direct from the government, the Ministry of Technology (and later the DTI) had quite a lot of information about UCS, even though the SIB still existed. However, as the Permanent Secretary at the DTI later revealed:

'One of the difficulties about this whole operation seems to have been that everybody went to the right sort of people to get the right sort of advice; they set up what ought to have been the right systems, they asked for the right kind of returns that you expect a monitoring organisation to ask for and yet the whole thing went very badly astray'.³⁴

The quality of information was clearly also crucial in the last few months of UCS's existence. Indeed, one of the main reasons the government allowed UCS to go into liquidation was its complete lack of confidence in the company's ability to produce accurate and up-to-date information. Ironically, Mr. Hepper claimed that the delays in producing monthly accounts were the result of priorities in the accounting system, which had limited resources: the first priority was to prepare the details which led to the releasing of government-

33. HC 447, Session 1971-2, Q.1299-305.

34. HC 447, Session 1971-2, Q.1323.

guaranteed credits for shipowners ordering ships from UCS. The demand for information by government can itself have a material effect on a firm's ability to obtain necessary information about its internal functioning. However, it is part of the government's job in setting up 'the right system' to ensure that the accounting system of the firm which is being monitored is able to cope with the demands placed on it. Otherwise, 'the whole thing' will go 'very badly awry'.

Clearly, much of the failure of monitoring during the brief three-and-a-half years' existence of UCS was a failure to ensure that UCS itself had financial control systems which were adequate either for the firm's own purposes or for providing information to the government. The situation during the existence of UCS was also complicated by the existence of the SIB as an agency between government and shipbuilding firms. In Mr. Hepper's opinion, the SIB proved more of a hindrance than a help to both government and the company; he felt that direct contact between the company and the department would have been better.³⁵ This problem was particularly acute after December 1969, when the SIB declined to recommend further aid for UCS. During the crucial period of 1970 covering the last few months of the Labour government and the first few months of the incoming Conservative government there was considerably less contact and supervision by the government than there had been earlier or was to be later.

The government, having set up an agency 'to deal with the industry', failed to develop adequate information procedures in situations with which the agency had not been designed to cope. Setting up an agency, or indeed any other kind of administrative arrangement, clearly does not provide a panacea to the problems of monitoring when the purpose of government involvement and the conditions necessary to achieve those

purposes are unclear.³⁶

8.5.4 Lessons from 1967-71

There were clearly important defects in the monitoring of information from shipbuilding firms in the period 1967-71 and these caused embarrassment to the government. As well as monitoring information from firms and ensuring that the internal information systems of firms are adequate, the government must 'monitor' its own procedures and remedy any defects which it finds. The most systematic outline of the lessons learnt by the government was given in a general statement by Sir Anthony Part, then Permanent Secretary at the DTI, to the Committee of Public Accounts in 1972.³⁷ The fact that this statement was made in the course of evidence on the shipbuilding industry shows the importance of the government's involvement in shipbuilding for the development of guide-lines of general applicability, though the government was obviously influenced by its experiences with other firms, such as Rolls Royce and the Beagle Aircraft Company. To avoid complicating the picture, Sir Anthony assumed in his statement that aid was to come direct from the government and not through an agency such as the SIB. Sir Anthony said that there were four 'problems' which might arise when a government intervened to help a company:

1. Because the help comes from the government other people might think that the government would be prepared to continue supporting the company whatever happened.

36. See section 9.3.3 and Young with Lowe, 1974, pp.201-8 for a discussion of the best machinery for 'project appraisal', 'monitoring' and 'follow-up'. Some of the 'methods' of monitoring listed in Young with Lowe, 1974, p.201, are not, in fact, methods of monitoring as such; for example, the appointment of a government director does not in itself constitute monitoring a firm's activities, nor does the taking of a shareholding.

37. HC 447, Session 1971-2, Q.1548; also included as an appendix in Dell, 1973, pp.232-4.

2. The government must avoid getting itself into a position that would cause a private person to fall foul of section 332 of the Companies Act. (See section 6.2.2 for how this problem influenced the governments unwillingness to approve credit guarantees in late 1970 for ships to be built at UCS).
3. If information about the company's performance and prospects is insufficient, the public investment in the company may be put at risk before the government becomes aware of the facts.
4. If the government asks for too much information or makes too many suggestions about the running of the firm it may erode the freedom of action of the directors to an extent that would appear to diminish the responsibility for the management of the company and to give the outside world the impression that the government's own commitment to the company was greater than the government intended.

The significance of these 'problems' is that they are problems affecting administrators rather than problems about monitoring. The real problems about monitoring are to define the desired effect of aid, to decide what action the government would be prepared to take if the desired effect is not being achieved, and then to define what information is required to identify any failure to achieve the desired effect and to enable the necessary rectifying action to be carried out. Finally, the forms in which the information is to be supplied and the systems necessary to supply it, including the internal information system of the firm, can be settled.

Sir Anthony went on to suggest several 'pointers' which he hoped would cope with the problems he had outlined. A note of guidance incorporating many of these pointers and called 'Monitoring of Companies in which the Government has a Financial Interest' was issued

in December 1973.³⁸ This note started by outlining the objectives of monitoring:

'The Government has a responsibility to Parliament and to the Public to monitor (i.e. to watch over) the progress of companies in which it has a financial interest. The objectives are:

- (i) to check that public funds are used for the purposes for which they are made available and that the terms and conditions under which such funds were made available are not transgressed;
- (ii) to assess the success in achieving the objectives for which public funds were supplied;
- (iii) to ensure that the calls on Government funds are kept to a minimum compatible with the achievement of the objectives for which they were supplied;
- (iv) to enable the Government to take appropriate steps to safeguard its investment'.

The action required to achieve these objectives varied according to the extent of the government's involvement; this note was concerned with situations where the government had 'or could have' a major financial interest. The basis for effective monitoring in these circumstances had three main elements:

- '(i) identifying the company's objectives;
- (ii) identifying the key risks and opportunities facing the company;
- (iii) ensuring that the company's internal management information and accounting system is adequate'.

In considering what information was needed for monitoring purposes, the government would so far as possible use material prepared for the company's own management purposes, so as to keep the administrative burden on the company to a minimum. The note concluded by outlining

38. This note is included in HC 303, Session 1974, pp.284-5. Emphasis in the quotation is added.

various kinds of accounts and other information which would be needed from firms.

It is interesting to note that the identification of the company's objectives is specified in the DTI's note, but that the need for identifying the objectives of government involvement is not mentioned. The difficulty with the 'objectives of monitoring' as defined in the note is that they are not couched in terms which can be measured, so that it would be difficult to determine even in retrospect the extent to which they had been achieved - except, of course, where there was complete failure, as with UCS. Perhaps most significant of all is the definition of monitoring as being 'to watch over', with the implication of a passive role.

The arrangements outlined in the DTI note were not implemented simultaneously for all companies to which the government had lent money, but were introduced gradually from early 1973.³⁹ Training was given to monitoring officers, who were responsible for monitoring particular firms, and the number of firms covered was gradually extended as staff pressures permitted. The Comptroller and Auditor General has also been showing increased interest in monitoring by including in his reports special sections on monitoring of firms in which the government is involved.⁴⁰

However, this increased concern by the DTI (now the Department of Industry) about the problems of monitoring has not prevented the recurrence of escalating demands by shipbuilding companies on public funds. In 1975 the Committee of Public Accounts noted of Govan Shipbuilders, the successor company to UCS, that 'the critical

39. HC 303, Session 1974, Q.150 of Session 1973-4.

40. E.g. HC 85, Session 1974-5, pp.xxxiii-xxxvi.

assumptions made about productivity and the level of losses had both been falsified, with the result that the Department now estimated that the total support from public funds over the five year period would increase to £50-60 million' from the £35m forecast in 1972.⁴¹ At Cammell Laird the 1972 estimate of £14m of public funds for capital works had already risen to £27m and might reach £32m, depending upon the results of a legal dispute between Cammell Laird and the contractor for the capital works.⁴² The Department of Industry considered itself virtually committed to completing the approved reconstruction scheme and admitted that the contractual and industrial relations disputes which gave rise to the increased costs were matters over which they had no control and could not establish control. Both of these examples illustrate not so much shortage of information but that increases in public funds required have resulted from causes outside the direct control of the government and that the government feels placed in a position where it cannot take any action on the basis of new figures other than to pay more money.

We can see that the department's concern to secure what it considered necessary information from shipbuilding companies in which the government is involved has not prevented a recurrence of the situation which gave rise to the concern. However, it is clear from Sir Anthony Part's evidence to the Committee of Public Accounts in 1972 that civil servants also have views about what is sufficient information: more than this they do not want to know. To understand the reasons for this we must consider the political implications of monitoring.

41. HC 374, Session 1974-5, para. 64.
 42. HC 374, Session 1974-5, para. 67.

8.5.5 The political implications of monitoring

If the term 'monitoring' is not to mean merely the receiving and analysing of information it must include the implication that if a company's progress deviates from that desired by the government, action will be taken by the government to remedy this. Information about firms is not 'neutral' - it can have considerable policy implications. Nor can guidelines to cover all contingencies be set out in legislation setting up an agency. Except in the short term these policy implications cannot be avoided by the failure to ensure that adequate information is provided. Problems won't disappear because the government doesn't know about them. Delays in receiving information can magnify the repercussions of a problem, as was illustrated by the UCS collapse.

It is interesting to note that three of the four 'problems' discussed by Sir Anthony Part and referred to in the previous section were concerned with areas of political embarrassment to the government, and that with two of them the embarrassment would arise as a result of the government receiving too much information from a firm. The department's fear that too close a scrutiny of a company's activities will give the impression that the government's commitment to that company is greater than the government intended is based on the expectations which would have arisen when government involvement in individual firms was less widespread than today. Such expectations will alter with experience of the new situation; indeed, this is essential if the government is to have adequate procedures to ensure that the purposes for which aid is given are carried out.

This concern with minimising the government's 'responsibility' and 'commitments' betrays a cultural trait of great importance in the relationship between the administration and firms.⁴³ Edmund Dell

43. This point was made to me by Professor Jack Hayward of Hull University.

puts it this way:

'In pursuance of this policy, therefore, government has attempted to lay down a line of demarcation between its responsibilities and those of the firm it is helping, and then to hold that line. Thus it has negotiated aid that seemed necessary at the time, and has then in effect told the assisted firm to get on with it. It has assumed that the firm wishes to succeed or survive, that it has, or has been given, the resources to see the programme through to success, and that therefore all subsequent decisions can be left to its commercial and technical acumen.⁴⁴

In practice, the industry department found that lack of information could also be a political embarrassment and therefore formulated procedures which it hoped would rectify this. However, a reluctance to know too much continues: not only does the DTI note on monitoring quoted above set minimum requirements for information, it also sets maximum requirements. The industry department has never really faced up to whether the desired effect of aid can always be achieved without 'interfering' in the firms after the aid has been given.

8.6 CONCLUSION

To return to the discussion at the beginning of the chapter, part of effective monitoring is to be aware of problems before they become serious enough to prevent the purpose of aid being fulfilled.

Knowledge that there is a problem may produce action, but if this action is to be appropriate there must also be knowledge about the reasons for the problem. This will certainly require the collection of information about the individual firm before the aid is given, but it

44. Dell, 1973, pp.161-2.

will also require information about the more general economic and other conditions in which the firm is operating - the type of planning information described in table 8.1. The government would need to be aware whether a sudden loss was due to poor internal management, a change in world demand, or the effect of other government policies (such as reducing the naval building programme or banning the sale of warships to certain countries). In practice, the government has not shown that it is aware of the interaction between these types of information.

We have already seen that the distinction between monitoring past aid and collecting information for new applications is blurred when there is a series of injections of aid. The analysis of aid to individual firms may in turn have implications for the reassessment of government policy for a particular sector, such as shipbuilding, or government industrial policy generally - the 1972 Industry Act following the UCS collapse provides an example. However, it is clear that 'monitoring' as used by the Department of Industry is distinct from assessing the 'cost-effectiveness' of aid. That is, monitoring is seen as a method of financial oversight rather than being linked to an examination of the most effective use of public resources to achieve certain ends. The Department of Industry accepts the need for such cost-effectiveness studies in terms which would satisfy any Simonian rationalist:

'We have to examine cost benefit and we have to look at alternative use of resources, not only in relation to this firm (Govan), or indeed to the shipbuilding industry, but generally in regard to assistance that we are giving. Is this the most sensible use of this particular quantum of public money? Would we get better results from the national

point of view if we used it in other forms?⁴⁵

Typically, however, the study actually being carried out by the department was confined to a retrospective examination of the support given to the UCS liquidator during 1971-3. Just as information for policy making and for implementation have been collected in a fragmented way, so too has information for evaluation.

Looked at in terms of the role of information in the policy process we can better understand the outcome of the Geddes approach. The Geddes approach was an attempt at strategy formulation which, when embodied in legislation, was insufficiently flexible to allow for deviation from forecasts or learning about the environment. To deal with the problems which arose as a result, the government had to adopt a fragmented approach after all. The Conservative government's approach as set out in its July 1973 statement did not represent an attempt to introduce greater flexibility into a planning or anticipatory approach; rather it represented the acceptance of an entirely reactive approach.

The collection of information by the British government for policy making, monitoring and evaluation of involvement in shipbuilding have clearly not been developed within a general framework of information requirements. The argument here is not that the government has failed to live up to the idealised model of information in a planning approach set out in figure 8.1. It was accepted at the beginning of this chapter that limits of knowledge and limits of resources restricted the extent to which this idealised model could be pursued. The argument is rather that government information collection has been characterised by a high degree of fragmentation - both fragmentation

45. HC 374, Session 1974-5, Q.571.

between information collected for policy making, monitoring and evaluation, and fragmentation within those categories. Information has generally been sought on an ad hoc basis to match the ad hoc nature of the decisions about involvement. Since most aid to shipbuilding has been in the form of rescue measures, criticisms that inquiries or monitoring have failed to achieve a 'better' allocation of public funds should really be directed at the nature of the policies adopted rather than the inability of the information collection procedures to ensure the success of those policies.

CHAPTER 9

THE INSTITUTIONAL FRAMEWORK

9.1 INTRODUCTION

It is clear from the number of different government departments and other agencies referred to in preceding chapters that during the period covered by this study shipbuilding came under a variety of government departments and paragonovernmental agencies (see table 9.1). This chapter analyses the reasons for each change and attempts to assess whether there was an underlying pattern which explains the number of changes. Given that there have been all these changes, it is important to determine whether they had any adverse effect on the ability of government to deal with the industry.

Table 9.1 Changes in responsibility for shipbuilding

Date	Change
Nov. 1959	Transferred from Admiralty to Ministry of Transport; comes under Shipbuilding and Repair Group.
1960	Transferred within MOT to Shipbuilding, Ports and Shipping Group.
1961	Transferred within MOT to Shipbuilding and General Group.
1963	Transferred within MOT to Shipping Policy and Shipbuilding Group.
late 1964	Transferred to Board of Trade; comes under Engineering Industries Division.
1965/6	Transferred with BOT to Division 4.
Nov. 1966	Transferred to Ministry of Technology; comes under Shipbuilding, Electrical Engineering and Chemical Plant Division.
March 1967	SIB formally established.
Oct. 1970	Ministry of Technology merged into DTI.
end 1971	Within DTI Shipbuilding Policy Division is set up; takes over residual functions of SIB.
March 1972	Formation of Industrial Development Executive within DTI.
1974	DTI split up; shipbuilding comes under Department of Industry.

The analysis of institutional frameworks falls clearly within the ambit of public administration, and this chapter will indeed refer to criteria for the allocation of functions and issues of responsibility and control. However, it should be clear from earlier chapters that the policy process affecting shipbuilding, including the implementation stage, was a political process rather than a purely administrative one. It is therefore important in discussing what would be the 'best' institutional framework for dealing with the industry to bear in mind that optimum arrangements in terms of administrative organisation may not be the most appropriate for dealing with what are essentially political interventions.

9.2 DEPARTMENTAL RESPONSIBILITY FOR SHIPBUILDING

9.2.1 Administrative criteria for the allocation of responsibility

This section is concerned not only with the way in which shipbuilding was transferred between departments, but also the transfer which took place between branches within departments. Before examining the history of these changes in some detail, it is worth considering the criteria which can be used to determine the allocation of functions. Self refers to Gulik's four competing principles of organisation: the purpose served, the processes employed, the persons or things dealt with, and the area covered.¹ He goes on to suggest that three of these principles - the areal, client and process principles - cannot generally be assigned a dominant status and that despite the fact that goals 'do not come in neat, tidy and reasonably durable packets called "Major purposes"' the dominant principle of organisation must be major function or purpose. However, this can only be made a basis for

1. Self, 1972, pp.55-64.

demarcating the work of government departments, Self suggests, by 'smuggling in' some of the other principles of organisation by the back door. Referring specifically to the Ministry of Technology, which looked after shipbuilding between 1967 and 1970, Self says:

'The British Ministry of Technology (1964-70) sounded like a process department, and certainly it has brought together a large part of the technological resources available to British government - but by no means all of them. Simultaneously though, the Ministry of Technology was a client-based department which had responsibility for a group of particular industries, and a purpose-based department which was interested to carry forward the policy goal of technological development'.²

The existence of purely personal factors and departmental inertia are recognised, but Self argues that these have mainly a delaying effect and that the long-term evolution of government machinery does follow rather more objective and logical patterns. Self accepts that it is, in general, a fair conclusion to regard the allocation of functions between government departments as a wholly political issue, so long as politics is broadly understood as including the views of officials, professional groups, clients etc.

Since we are also examining changes in responsibility within departments, we will also be considering the criteria for such changes and the relationship between internal changes and changes between departments. *Chester and Willson* show the significance of administrative convenience in fitting minor functions into the system; often new tasks will be fitted to existing ones with which they appear to have a close affinity.³

2. Self, 1972, p.58.

3. Chester and Willson, 1968; see also Self, 1972, pp.63-4.

As well as assessing the relevance of these general views about the allocation of functions to the changes affecting shipbuilding we will want to examine how far these changes were directly related to the developments in policy outlined in earlier chapters.

9.2.2 Changes in departmental responsibility

Changes in departmental responsibility before 1959. Before 1916 shipbuilding had not been under the wing of any government department and during the First World War was greatly penalised as a result. Shipowners were reluctant to place orders^{for ships} when they might be immediately requisitioned, and the shortage of labour and materials prevented shipbuilding firms from completing such orders as they did receive. 'The industry indeed seemed likely to stop altogether unless it was placed in the care of a department strong enough to compete for men and materials with the Admiralty and the Ministry of Munitions'.⁴

In December 1916 The Ministry of Shipping was established under a Shipping Controller. The Admiralty's Transport Department was transferred to the Ministry of Shipping, which was also given responsibility for supervising shipbuilding. The Shipping Controller introduced a programme for constructing standard ships. However, responsibility for shipbuilding did not remain with the Ministry of Shipping for long, since following considerable losses of ships during the early months of 1917 a great increase in the rate of construction was necessary. It was considered desirable that a single department should be responsible for both naval and civil shipbuilding, and this was achieved by transferring responsibility for the building and repair of merchant ships to the Admiralty in May 1917.

4. Chester and Willson, 1968, p.62.

A few weeks after the outbreak of the Second World War a new Ministry of Shipping was established (the old one having been disbanded in 1921); this took over all the shipping work of the Board of Trade and was also made responsible for merchant shipbuilding. 'This latter arrangement, however, worked no better than it had in the early months of 1917', and in order once again to place all shipbuilding under one control, responsibility for merchant shipbuilding and repairs passed to the Admiralty in February 1940.⁵

The transfer from the Admiralty to the Ministry of Transport. Those responsibilities of the Admiralty for shipbuilding which were defined under legislation were transferred to the Ministry of Transport by the Transfer of Functions (Construction of Ships) Order 1959, which came into effect in November 1959; these responsibilities were mainly of a regulatory nature and were no longer of any significance. However, the government exercised its general prerogative by transferring at the same time the general responsibilities of the Admiralty as the sponsoring department for the shipbuilding to the Ministry of Transport.

The transfer of shipbuilding, along with shiprepairing and marine engineering, was carried out as part of a general reallocation of functions that followed the abolition of the Ministry of Supply and the creation of a Ministry of Aviation. Grove has argued that there was not a strong case in peace time for dividing shipping and shipbuilding between a civil department and a military supply department and that, though the Admiralty was a large customer and much research and development is of common application, the civil and military aspects are readily separable to a greater extent than in the

5. Chester and Willson, 1968, p.95.

production of aircraft.⁶ He also points out that the Ministry of Transport was already closely involved in the affairs of the shipbuilding industry through the enforcement of safety regulations, which in the case of passenger ships applied while the ship was still on the drawing board.

Mr. Marples, the Minister of Transport, justified the transfer on the grounds that 'shipping, shipbuilding and shiprepairing in any sensible concern would be brought under the same management because they are now closely related'.⁷ This argument was a reflection of certain apparently common problems facing the industries at the end of the 1950s. The domestic shipping industry was undergoing a depression and this affected the UK shipbuilding industry, which at the same time faced increasing competition from German and Japanese yards. The government felt that a coordinated approach would be the best to tackle these difficulties. This attitude represented a hangover from the days of the symbiotic relationship between British shipping and shipbuilding described in section 2.4 and a failure to diagnose shipbuilding's problem as having to compete in world markets rather than to hang on to the coat tails of the British shipping industry. One of the immediate consequences of the transfer was that it was the Ministry of Transport rather than the Admiralty which had to deal with the consequences of the embarrassing resignation of Sir Graham Cunningham over the failure of the industry to agree to inquire into its prospects (see section 3.2).

Rather unusually, the Opposition decided to move a prayer against the Order transferring the regulatory powers on the grounds that the Ministry of Transport had 'a very sorry record' and already had a

6. Grove, 1962, p.98.

7. HC Deb., 25 November 1959, col.510.

heavy workload.⁸ The debate in the House of Commons was a shambles. The majority of members seemed unaware of the narrow, rather technical scope of the Order and frequently had to be called to order for trying to widen the nature of the debate. The implication is that the House of Commons is an inappropriate body for scrutinising the effects of changes in departmental responsibility.

Shipbuilding under the Ministry of Transport. During its period of sponsorship by the Ministry of Transport, shipbuilding came under various groupings of functions. Initially it was placed under a small section of its own - the Shipbuilding and Repair Group - under a Deputy Secretary; this was subdivided into the Directorate of Merchant Shipbuilding and Repair (DMSR) and a Shipbuilding and Ship Repair Division under an Assistant Secretary. In 1960 the Shipbuilding and Repair Group became part of a Shipbuilding, Ports and Shipping Group. The following year, shipbuilding became part of a Shipbuilding and General Group, which also included an International Inland Transport Branch, a Statistics Division, a General Division, and later the United Kingdom Railway Advisory Service! Shipbuilding spent its final year or so at the Ministry of Transport in a Shipping Policy and Shipbuilding Group, which also included two Foreign Shipping Relations Divisions and a General Shipping Policy Division.

The way in which shipbuilding was transferred between these various groups suggests that they were the result of conveniently sized groupings for organisational reasons rather than to find the grouping which would be most effective for bringing shipping and shipbuilding 'under the same management' as desired by Mr. Marples. However, the effect of these frequent internal changes should not be exaggerated.

8. HC Deb., 25 November 1959, col.464.

The same Assistant Secretary was in charge of the Shipbuilding and Ship Repair Division for most of its stay at the Ministry of Transport, and because the industry was of special concern to the Permanent Secretary (who was also chairman of the Shipbuilding Advisory Committee), the Under-Secretary in charge of whatever group shipbuilding happened to be under could be 'short-circuited'. Shipbuilding was initially put directly under a Deputy Secretary because of concern about the industry after its transfer. Later, in 1961, Elizabeth Ackroyd was brought in to head the Shipbuilding and General Group largely to deal with shipbuilding. This, together with the appointment of Vice-Admiral Hughes-Hallett as an additional Parliamentary Secretary with special responsibility for shipping and shipbuilding, lessened the load on the Permanent Secretary, who previously had spent a disproportionate amount of time on shipbuilding.

The forgotten transfer. In the list of ministerial appointments following the Labour victory at the October 1964 general election it was announced that Mr. Wilson was creating a new transport department at the Board of Trade which would be responsible for shipping and shipbuilding.⁹ However, according to Mr. Wilson, 'It was always my intention from the outset to transfer shipbuilding together with machine engineering to the Ministry of Technology when that was properly established'.¹⁰ In sections of his memoirs dealing with his first months in office Mr. Wilson also refers to his intention of transferring shipbuilding to the Ministry of Technology but nowhere mentions that his government at that time was actually in the process of transferring it to the Board of Trade.¹¹ It appears clear

9. Times, 21 October 1964.

10. Harold Wilson in a personal communication to the author, 23 November 1973.

11. Wilson, 1971, pp.8 and 62.

that he had no particular reason for wanting shipbuilding under the Board of Trade, which was contrary to his expressed intention: 'What I decided to do - though it took a lot of time - was to make the Board of Trade responsible for shipping (not ship-building) ...'¹²

Mr. Wilson states that he does not think he has any notes about why shipbuilding was transferred to the Board of Trade when it was already his intention to transfer it to the Ministry of Technology.

The reason for the transfer of shipbuilding to the Board of Trade when it was already intended to transfer it to the Ministry of Technology appears to lie with its relationship with the shipping industry. Many shipowners had thought that the Board of Trade was more appropriate than the Ministry of Transport because of the international aspects of the shipping industry. For its part, the Shipbuilding Conference, the predecessor of the SRNA, welcomed the transfer: 'Closer and more direct contact with the Board of Trade, which is so intimately concerned with commercial relations and exports, the welfare of a wide range of industries, and the operation of the Export Credit Guarantee Department, should be of benefit to the shipbuilding industry'.¹³

Although the original announcement had stated that shipping and shipbuilding would be together in a transport department at the Board of Trade, during its stay at the Board of Trade, shipbuilding was in the Industries and Manufactures department and was separated from shipping. Within the Industries and Manufactures Department, ship-

12. Harold Wilson in a personal communication to the author, 23 November 1973. Mr. Wilson states that he does not think he has any notes about why shipbuilding was transferred to the Board of Trade when it was already his intention to transfer it to the Ministry of Technology or why at the Board of Trade shipbuilding did not form part of a new transport department but was put in the Industries and Manufactures Department.

13. Times, 22 October 1964.

building was first of all in the Engineering Industries Division, which was responsible for plant and machinery, shipbuilding, ship-repairing, metals except iron and steel, timber, woodpulp, paper and paper products, and most metal durable goods, and then in Division 4 which looked after matters concerning shipbuilding, shiprepairing, metals except iron and steel, timber, woodpulp, paper and paper products and miscellaneous consumer goods. The latter grouping in particular suggests that shipbuilding was put in with the other industries simply to make up a division of a suitable size and that organisation to assist coordinated policy was not the main concern.

Shipbuilding at the Ministry of Technology. The transfer of shipbuilding from the Board of Trade to the Ministry of Technology in 1966 provoked more Parliamentary Questions than any of the other transfers, reflecting political interest in the industry following publication of the Geddes Report in February 1966. Indeed, the transfer came at a very critical time in policy making and many MPs were concerned about the effect that this transfer would have on continuity of policy. The timing is illustrated by the fact that the Prime Minister announced on 16 June that shipbuilding would be transferred to the Ministry of Technology; Mr. Jay, President of the Board of Trade made an announcement on 9 August that the government would be introducing legislation to set up a Shipbuilding Industry Board; and on 21 November the industry was formally transferred to the Ministry of Technology, which thereby became responsible for piloting the legislation through the Commons.¹⁴

14. Wilson, 1971, p.270, states: 'Immediately following Douglas Jay's statement, responsibility for shipbuilding and marine engineering passed, as I had earlier announced it would, from the Board of Trade to the Ministry of Technology'. In fact, the transfer took place three months later, as Mr. Wilson himself informed the Commons (HC Deb., 6 December 1966, written answers col. 276-7).

The government was particularly anxious to assert that there would be no delay in implementing the recommendations of the Geddes Report. The work done by the Board of Trade on the report was to be continued at the Ministry of Technology, which would be involved in any decisions made while shipbuilding was still at the Board of Trade.¹⁵ In reply to a Parliamentary Question the Prime Minister stated that: 'It is the intention to transfer to the Ministry of Technology at the appropriate time the greater part of the staff that handles shipbuilding business in the Board of Trade. The two departments will also continue to maintain after the transfer their present close working relations on matters of common concern'.¹⁶ Staff at a higher level than those dealing full time with shipbuilding were to be transferred.

The reason given by the Prime Minister for the change in responsibility was that 'it had become more and more illogical to separate marine engineering from other aspects of the engineering industry'.¹⁷ There were, he said, serious difficulties of whether to have a horizontal or vertical organisation; that is, there was a case for shipbuilding being with shipping, and there was a case for it being with the rest of the metal-using industries. On balance, the government thought that the second alternative was the right answer. However, as was shown above, shipbuilding was not arranged 'vertically' with shipping within the Board of Trade, but was lumped in with a variety of other industries, including for a time some engineering ones.

During its period at the Ministry of Technology the shipbuilding industry was in the Shipbuilding, Electrical Engineering and Chemical

15. HC Deb., 5 July 1966, col. 226.

16. HC Deb., 19 July 1966, cols. 380-2.

17. HC Deb., 16 July 1966, col. 1659.

Plant Division (ECS), one of five industry divisions at the Ministry. Mr. I. Maddock, Controller (Industrial Technology) at the Ministry wrote:

'On first encounter this may seem a strange grouping, but there is a similarity in many of the industrial problems of these industries. In each case, a unit may cost tens of millions of pounds, take a time measured in years to build, need the services of a great number of subcontractors and component suppliers, and call for a special relationship with the steel-makers. These are the industries where long order books are common, and where the failure to capture the contract for even a single unit can be serious.'¹⁸

As well as dealing with these industries concerned with very large capital equipment this division also dealt with related industries, such as component suppliers. This grouping clearly conformed to the principle of organisation by the processes employed which was referred to in section 9.2.1.

Within the ECS division, the shipbuilding was originally the responsibility of one branch, which also dealt with shiprepairing, boat building and marine engineering. In 1969 the industry was split between two branches, a 'general' one dealing with marine engineering, shiprepairing, boat building, nuclear ships and hydrofoils, and planning and intelligence liaison with the SIB, and a 'technical' branch dealing with the Home Credit Scheme, R & D projects, exports and overseas competition, international negotiations, and the Credit Guarantee Scheme.

The transfer to the DTI. The transfer of responsibility for the

18. New Technology, no.3, March 1967, p.3.

shipbuilding industry from the Ministry of Technology to the DTI in October 1970 was of a different nature to the transfers discussed above. It was merely part of the merging of all the functions of the Ministry of Technology except aviation into the new Department of Trade and Industry; this in turn was part of the general reorganisation of central government that took place at that time. This transfer of responsibility therefore caused no real disruption in the administration of responsibility for the industry, as no physical transfer was involved. The shipbuilding industry remained at first in the ECS division with a Shipbuilding (General) Branch and a Shipbuilding (Financial Assistance) Branch. However, in late 1971 a Shipbuilding Policy Division with three branches was created; this change coincided with the winding up of the SIB at the end of 1971 and the assumption of its residual functions by the DTI.

A further internal reorganisation of the DTI relevant to shipbuilding was the setting up of the Industrial Development Executive and the appointment of a Minister for Industrial Development in March 1972. In his statement announcing these proposals on 22 March 1972, John Davies, the Secretary of State for Trade and Industry, said that shipbuilding and machine tools were two industries in which he wanted the new Executive to take an immediate interest.¹⁹ In 1974, the incoming Labour government dismantled the DTI and shipbuilding came under the Department of Industry - essentially the old Ministry of Technology before it absorbed the Ministry of Power, though also taking in Posts and Telecommunications.

9.2.3 The overlap of responsibilities for the shipbuilding industry

During the period 1959 to 1973 various aspects of the shipbuilding

19. HC Deb., 22 March 1972, col. 1551.

industry have been the responsibility of departments other than the one sponsoring the industry. In some cases these responsibilities have been continuous throughout the period and are in no way specific to the shipbuilding industry. For example, responsibility for industrial relations in the shipbuilding industry, a matter of great importance to the industry's competitive position, has been with the Ministry of Labour, later the Department of Employment. The Admiralty and later the Ministry of Defence (Navy) has had a very important role as one of shipbuilding's most important and, in terms of ordering only in the UK, most consistent customers. Much of the research and development work done by the Navy is relevant to merchant shipbuilding and vice versa. In addition to the 'normal arrangements for inter-departmental cooperation' between the Ministry of Defence and the DTI, 'there is extensive consultation at working level on many different aspects of shipbuilding technology'.²⁰ It was because of Yarrow's role as a naval shipbuilder that it was the Ministry of Defence, rather than the DTI, which provided it with a loan early in 1971.

Research and development work in shipbuilding, except for warships, is now the responsibility of the Department of Industry, but it has not always been with the sponsoring department for the industry. Until 1964 shipbuilding research and development came under the Department of Scientific and Industrial Research (DSIR), which in 1960 published a controversial report on the research and development requirements of the industry (see section 3.3). However, the DSIR appears to have interpreted its brief rather widely, and the report dealt with labour relations, quality of management and the structure of the industry as well as more strictly technical matters.

20. HC Deb., 10 February 1972, written answers col. 443.

Following the abolition of the DSIR by the incoming Labour government in 1964, most of its functions, including those for shipbuilding research and development, were transferred to the new Ministry of Technology. When the general responsibility for the industry was also transferred to the Ministry of Technology in 1966, these two types of responsibility for the industry were united within a single department.

Regional responsibilities can also result in an overlap. In Northern Ireland shipbuilding has been the responsibility of the Northern Ireland Ministry of Commerce, a situation which continued after the introduction of direct rule. However, the SIB, which gave extensive help to Harland and Wolff in Belfast, reported on all its UK activities, including those in Northern Ireland, to the Ministry of Technology and later the DTI. Although by 1976 Harland and Wolff had been taken fully into state ownership, it remained under the Secretary of State for Northern Ireland and was excluded from the government's nationalisation Bill, a move which led some Ulster politicians to believe that the government was planning an economic withdrawal from the province. In Scotland, the Department of Industry and the previous sponsoring departments have been responsible for shipbuilding, but the Scottish Office has obviously had an interest in the fate of Scottish shipyards, particularly those on the upper Clyde.

Overlaps can also occur on an ad hoc basis. The most interesting example of such an overlap is provided by government involvement in the Fairfields yard on the upper Clyde, described in section 4.3. Here it was the Department of Economic Affairs through its responsibility for regional problems rather than the Board of Trade as the sponsoring department for shipbuilding which took charge. The Fairfield episode showed that in favourable circumstances even the

opposition of a sponsoring department can be overcome. Another government department enthusiastically supporting a project is a most powerful kind of pressure group. Accordingly, it would be of advantage for interest groups to devote at least some of their attention to a government department which deals with matters only indirectly related to the project in which they are interested if that department is likely to be more favourably inclined towards it than the sponsoring department.

9.2.4 The overall effect of changes in responsibility

The reasons for change. Between 1959 and 1972 divisions or groups which have covered shipbuilding (that is, sections under the charge of an under-secretary) have also covered ports, sea transport, shipping planning, international inland transport, shipping statistics, the United Kingdom Railway Advisory Service, foreign shipping relations, plant and machinery, metals except iron and steel, metal consumer durable goods, timber, woodpulp, paper and paper products, chemical process plant and electrical engineering. It is difficult to detect from this list any pattern or trend in the criteria used for changes in responsibility within departments.

The process of bringing about changes between divisions within a department is an informal one.²¹ Initially there are informal discussions between under-secretaries and a deputy secretary about workload. The deputy secretary might then present reallocation proposals to the permanent secretary. If there was a good case for them they would be passed by the permanent secretary and would then be examined by the establishments division, which would consider any extra

21. This paragraph is partly based on an interview with a civil servant dealing with shipbuilding. 14 August 1973.

staff or facilities required. At no time would politicians be involved. The reason for the number of transfers of responsibility for shipbuilding between divisions was the need to achieve acceptable workloads rather than attempts to improve coordination of policy. The growth of government involvement in shipbuilding and the consequent growth in the number of civil servants was only related to changes within departments insofar as this growth led to the imbalancing of the workload of a division. The experience of the shipbuilding industry seems to bear out Chester and Willson's view, referred to earlier, that administrative convenience is significant in fitting minor functions into the system.

In terms of change between departments, we can see a long-term change from grouping with the users of the industry's product (or rather with the users of some product of the UK shipbuilding industry and of its rivals) to grouping with producers of other goods. In this sense the changes can be explained in terms of a regrouping of major functions or purposes as argued by Self (see section 9.2.1). However, it is difficult to see why so many reallocations of responsibility were necessary to bring about this change. The transfer to the Board of Trade seems explicable only as the consequence of other changes in responsibility, while the Prime Minister's justification of the change to the Ministry of Technology was less than wholly accurate. It seems more plausible to explain the changes in terms of the political fashions of the time. Shipbuilding is by no means the only example of transfers of responsibility in this way; civil aviation had been treated even more dramatically in the same period. These transfers of individual industries must also be seen in the context of the riot of institutional tinkering during the period, with the setting up and disappearance of departments like the Department

of Economic Affairs, and the evolution and dismemberment of the DTI as a giant department to deal with all aspects of industry.²²

Transfers between departments are obviously of a much more political nature than transfers between divisions and inevitably involve politicians:

'Machinery also depends to some extent in the quality of the Ministers available. For example, Ministries headed by Barbara Castle, one of our best administrators, were given additional powers - and in two cases she was moved to a new Department in order to create or re-organise it'.²³

Alternatively, a permanent secretary might suggest that his department is overloaded. In any case, the final decision would have to be cleared by the Prime Minister.

Changes in responsibility are very much seen as an internal matter for the government. The industry is never consulted in advance about a decision on changes in responsibility. It is not normal to send circulars to shipbuilders about a change in department, though one was sent out when shipbuilding was transferred from the Admiralty to the Ministry of Transport in 1959. When shipbuilding was to be transferred to the Ministry of Technology Mr. Wilson wrote a personal letter to the SRNA chairman announcing the transfer of responsibility; this reflected the SRNA's anxiety that the change should not impede the follow up to the Geddes Report. When there were changes between divisions within the same department, the change would probably be confirmed to the industry association in an informal telephone conversation.

22. For an analysis of departmental changes in central government up to 1974, see Clarke, 1975.
23. Harold Wilson, in a personal communication to the author, 23 November 1973.

Continuity of civil servants. Of course, lack of continuity in departmental and divisional responsibility does not necessarily reflect a lack of continuity in the senior civil servants involved. Of the two senior civil servants listed as responsible for shipbuilding matters at the Admiralty in the 1959 Civil Service List one, the Director of Merchant Shipbuilding and Repairs was listed in 1960 amongst the five civil servants responsible at the Ministry of Transport. Within the Ministry of Transport, despite the changes of groups in which shipbuilding was included, a fair degree of continuity was maintained up to 1964. However, the continuity was sharply broken with the transfer from the Ministry of Transport to the Board of Trade, with only the Director and Deputy Director of Merchant Shipbuilding and Repairs appearing in the lists both before and after the transfer.

In contrast to this, when responsibility was transferred to the Ministry of Technology, all those in the list after the transfer had also been in the appropriate division at the Board of Trade, including the under-secretary, bearing out the Prime Minister's undertaking that the transfer would also involve civil servants at a higher level than those dealing full-time with shipbuilding. Within the Ministry of Technology a fair degree of continuity was preserved, though the growth in the number of senior civil servants involved in shipbuilding matters meant that a large proportion had no previous experience of the industry. The transfer of shipbuilding from the Ministry of Technology to the DTI involved the transfer of the entire division in which shipbuilding was included and, with one exception, those listed in 1971 had also been listed in 1970 as responsible for shipbuilding.

Turning to individuals, a remarkable record of continuity was held by Mr. A. Sutcliffe, who was Deputy Director and later Director of Merchant Shipbuilding and Repairs from 1960 to 1970; the post was

wound up following his departure. The post of assistant secretary of the shipbuilding branch (after 1970 one of two branches) was held from 1966 to 1971 - a crucial period in the development of government relations with the industry - by Mr. V.I. Chapman, who had also been secretary to the Geddes Committee. Both the two branches concerned with shipbuilding at the DTI had as assistant secretaries men who had been civil servants involved in shipbuilding matters for five years previously, i.e. from the time shipbuilding had been under the Board of Trade. In this important respect, continuity of senior civil servants dealing full-time with the industry has been greater than the continuity of departmental responsibility.

Growth in the number of civil servants. The growth in government involvement has been paralleled by a rise in the number of civil servants dealing full time with the industry. Under the Admiralty only two were separately identified in the Civil Service list; immediately following the transfer to the Ministry of Transport there were five. The number was still the same when shipbuilding was transferred to the Ministry of Technology, but by its last year at that ministry there were seven. By 1972, when shipbuilding was in a division of its own, there were eleven. These figures are for senior civil servants, i.e. principal and above, who were dealing full-time with shipbuilding. The pattern of growth for the total number of civil servants of all grades was rather different. When shipbuilding was transferred to the Ministry of Transport in 1959, sixteen civil servants were transferred, two of whom were senior civil servants; when shipbuilding was transferred to the Ministry of Technology a total of nineteen staff was transferred, of whom five senior civil servants. By 1972 there was a total of 42 posts, of which eleven were senior. Thus until the late 1960s the growth in senior posts was more marked

than the total growth, but thereafter both senior and total posts grew dramatically.

Of course, to get truly comparable figures of civil service manpower it would be necessary to include those who were involved in shipbuilding matters in other departments at various times. This would include those at the DSIR who looked after shipbuilding research and development. Further, while the employees of the SIB were not actually civil servants, they carried out work which would otherwise have been done by the responsible department. This is reflected by the fact that the total number of civil servants dealing with shipbuilding rose from about twenty in 1970 to forty-two after the SIB was wound up. It is also important to remember that when crises arose they would command the attention of civil servants considerably senior to those dealing with the industry full-time, and even on occasion the Cabinet.

The effect of the changes. On each of the occasions when shipbuilding was transferred between departments plausible reasons for the change were advanced, though some of them do not stand up to much scrutiny. Looked at overall, however, shipbuilding came under five different departments within twelve years, and the three most important transfers occurred within eight years. Just as it was possible to argue on each occasion that the new department was more suitable than the old, so it is possible to point out with the benefit of hindsight that no-one took an overall view that since each department was in some way suitable any particular disadvantages of shipbuilding being in that department might be outweighed by the disruption caused by the various transfers.²⁴

24. For example, a former SRNA director in interview had no objection to any of the departments, but did object to the number of transfers. 11 December 1972.

This applies even more when the transfers between divisions within the same department are taken into account.

As was remarked earlier, these changes in responsibility for shipbuilding took place at a time of considerable general institutional change. However, this means that even less attention than there might have been otherwise has been focussed on the way in which transfers affect decision making about individual industries. Sir Richard Clarke has estimated that it takes two years to weld a department of considerable size together and five years to make it a really established entity.²⁵ On a smaller scale, there must also be 'disruption costs' for transfers of individual industries, even if, as we have seen above, there may be a reasonable degree of continuity of civil servants dealing with the industry. The fact that civil servants at the very top of the department may not be transferred is very important, since civil servants and industry representatives both agree that such transfers destroy contacts which have been established up to permanent secretary level.²⁶ Transfers of responsibility also lead to changes over and above those occurring in the normal course of political life in the ministers to whom representations have to be made. In general, it seems fair to conclude that changes in responsibility for shipbuilding have had little to do with adapting the machinery of government to enable it to fulfil better changing needs and policies, and that they have, if anything, reduced the government's ability to deal with the industry.

9.3 THE ROLE OF PARAGOVERNMENTAL AGENCIES

9.3.1 The general arguments

The already complex picture of changes in departmental responsibility

25. Clarke, 1971.

26. Interviews with a former director of the SRNA and a former Permanent Secretary at the Ministry of Transport. 11 December 1972 and 19 November 1973.

for shipbuilding is further complicated by the existence of the Shipbuilding Industry Board between 1967 and 1971 and the involvement of the Industrial Reorganisation Corporation (IRC) with its specific intervention over Cammell Laird. This section seeks to assess the role of paragonovernmental agencies as vehicles for shipbuilding policy, as well as commenting on the more general value of agencies.

The Trade and Industry Sub-Committee of the House of Commons Expenditure Committee has considered the role of paragonovernmental agencies at some length.²⁷ Arguments presented to the committee in favour of agencies fell under three main headings:

(1) Businessmen are better able than civil servants to judge and handle the problems that arise.

(2) A certain measure of independence of government is a distinct advantage.

(3) At the same time the ultimate sanction of government authority gives the agency advantages over any privately-created institution. The view taken here is that these arguments in themselves do not present an adequate justification for intervention being carried out by paragonovernmental agencies rather than directly by government. The first two types of argument and the reasons why they are not accepted here are considered in more detail below (the third type of argument is not considered here since we are concerned with the relative merits of agencies and departments rather than paragonovernmental agencies and private organisations).

It could be pointed out in reply to the view that businessmen are better able than civil servants to handle problems that these problems would not have arisen in the first place if the businessmen in the firms concerned had been capable of running things without coming to the

27. HC 347, Session 1971-2, chapters 7-9.

government for help. However, this is rather a cheap point. Much more important is the fact that insofar as businessmen's expertise is relevant this can be provided without a full-blown paragovernmental agency. Advice can be sought on an ad hoc basis by commissioning reports from consultants, like the Hill Samuel Report on Govan Shipbuilders, or it can be institutionalised, like the arrangements following the 1972 Industry Act. (To be fair to the Expenditure Committee, it should be pointed out that most of the evidence was given to the committee before these arrangements were set up). Following the March 1972 White Paper on Industrial and Regional Development there was set up within the new Industrial Development Executive at the DTI and Industrial Development Unit, with staff recruited from the City, industry and government.²⁸ Its role was described as being to help with appraisal and negotiation, principally in cases involving selective financial assistance, the monitoring of investments made by the department, and the undertaking of studies of problems affecting industry and particular sectors of it.²⁹ Under the Industry Act there was also an Industrial Development Advisory Board (IDAB) to advise generally on industry-wide problems and specific major cases for selective financial assistance. In addition, non-statutory Industrial Development Boards were appointed for Scotland, Wales and those English regions with substantial assisted areas.

The crucial point about these post-1972 arrangements is, of course, that the actual decision gets taken within the government department, and this leads to the second set of arguments in favour of agencies - that a certain measure of independence of government is a

28. Cmnd 4942.

29. HC 429, Session 1972-3, p.6.

distinct advantage. (In practice, agencies may not be given complete independence: under the Industry Act 1975 and other recent legislation the Secretary of State may direct the National Enterprise Board (or the Scottish or Welsh Development Agencies) to provide selective financial assistance under the Industry Act 1972). The arguments advanced in favour of independence include: (1) there are too many government departments involved with any one industry; (2) companies are more prepared to give information to agencies than to the government; (3) an agency is less subject to changing political pressures than a government department; (4) there is value in being able to say that an independent body or group had recommended a particular course of action.

The first argument - that there are too many government departments dealing with any one industry may be true, but the setting up of an agency need not necessarily improve matters. Indeed, far from reducing the problem of proliferation, the establishment of an agency can make it worse. During the period 1967-71 naval ship-builders still had to deal with the Ministry of Defence, the Ministry of Technology and the Ministry of Labour, but also had to deal with the SIB. When Cammell Laird got into difficulties, the SIB, the government and another agency, the IRC, were all involved.

The argument that companies are more prepared to give information to agencies than to the government appears to relate to the late 1960s. Experience of the 1972 Industry Act suggests that firms are prepared to give information to the government to get aid. The remarks of Bray where he is considering whether the 'agencies' he recommends for each industry should be separate bodies like the SIB or integrated into a government department are very relevant to this point:

'these agencies would be at a disadvantage if they could not argue their case within the government machine, and whoever

did argue for them would be exercising the real power. There would thus have to be people in sponsoring departments looking after agencies in any case. And firms do speak very frankly to government if only because government has the power. Also the proliferation of bodies makes for confusion already. On balance it seems better to regard the industrial agencies as organisational units within government departments ... The success of a disaggregated approach depends on building up the mutual confidence and understanding directly between firms and the government. There is no short cut by government pretending not to be government'.³⁰

Chapter 8, particularly section 8.5 on monitoring, suggested that, unless information to an agency was duplicated to the government, the government would be at a disadvantage if it came to be involved directly. For example, a 120-page-long report by the IRC on Rolls-Royce was not made available to the government, and only came into the government's possession after the IRC had been closed down. Far from the balance of advantage in the collection of information lying with an agency, there are distinct disadvantages when viewed in the context of the policy process as a whole as in section 9.3.3 below.

Another argument in favour of independent agencies was that they are less subject to political pressures than government departments. Despite the fact that objectives such as promoting competitiveness are vaguer to apply in practice than might seem, this argument is undoubtedly correct. However, it is also irrelevant, because the existence of an agency does not in practice insulate the government from these pressures. The result is illustrated quite dramatically

30. Bray, 1970, p.274.

by government involvement in the shipbuilding industry: between 1967 and mid 1972 direct government aid was well over twice SIB aid. The detailed application of industrial policy is an inherently political activity, and it is naive to assume that particular kinds of institutional arrangements will exclude political pressures from influencing the implementation of policies.

The final argument to be considered here is that it can be valuable to politicians to be able to point to the advice of an independent group. This is undoubtedly true, and the last chapter drew attention to how inquiry reports had been used in this way by governments. However, there is no need for a full-blown agency to provide this advice. As we saw above, under the 1972 Industry Act the IDAB is merely advisory and can have its advice rejected (as over the Kirby cooperative) or it can be ignored altogether (as over Court Line). This, however, merely draws attention to the fact that politicians do not always want independent advice to resist political pressures. Even when an independent agency with executive responsibilities declines to provide assistance, as the SIB did with UCS in autumn 1969, the government may decide to intervene directly.

The case being made here can be summarised as follows: (1) some of the arguments advanced in favour of agencies as against government departments turn out to be invalid in practice (e.g. that it gets round the problem of a multiplicity of departments dealing with an industry); (2) some of the advantages of agencies also apply to bodies without executive powers, such as the IDAB; (3) some of the arguments are based on the desirability of excluding political pressures, which is merely impossible.

9.3.2 Special features of the SIB

While the arguments discussed above were of a general nature, it is important to distinguish between multi-sectoral agencies, such as the IRC and the National Enterprise Board (NEB) and single-sector agencies, such as the SIB. Further differences are the expected lifetime of the agency and the nature of its funding - the SIB was seen from the start as a temporary body with fixed funds, though both its lifetime and its funds were later extended. There are also other differences between specific agencies which do not relate to these characteristics: the IRC was not criticised by the witnesses to the Expenditure Committee as being a barrier between industry and government in the same way as the SIB was.

The main difficulty with single-sector agencies is that industrial companies often cross sectoral boundaries, and problems may not be confined to a single sector. This was clearly the case with Cammell Laird, where the group's difficulties went beyond the shipbuilding component of the group and the IRC had to be called in (see section 5.3.3). There, however, the situation was complicated by the fact that the IRC was specifically excluded from shipbuilding. This had been done to avoid overlap between the roles of the two agencies, but the problem of a gap arose instead. The problem of overlap is a potentially important one, however; it could arise on a geographical rather than a sectoral basis with the NEB and the Scottish and Welsh Development Agencies.

In retrospect, we can see that the Geddes timetable set for the SIB was too short; indeed, it now seems unrealistic to have introduced a fixed time limit at all. The reason for imposing the limit - to compel a sense of urgency in seeking solutions - is laudable enough, but it did not seem to be a very effective way of forcing the

pace. Dell, though in favour of a general agency, argues that if there is to be an agency for an industry such as shipbuilding it should not be a temporary one, but should have a continuing responsibility for the funds it disburses - 'a responsibility from which it cannot be expected to be released by blissful death'.³¹

A further problem faced by temporary agencies is the difficulty they may face in attracting competent staff, since they are unable to offer a career structure.

A small element of flexibility was built into the 1967 Act by allowing for the extension of the SIB's life for one year after the end of 1970. However, by then the SIB itself had become a 'lame duck' agency because it no longer had any grants left to disburse, despite the fact that the amount available to it had been increased in 1968. By this time, of course, the government was giving aid to shipyards directly. By giving a fixed sum rather than one to be reviewed, say, every year, the government wanted to emphasise that it did not see its commitment as being open-ended. Yet, in practice, government assistance has proved to be open-ended both in terms of time and money, and setting up an agency with limited funds and limited life does not prevent this. It seems fair to conclude that, apart from being set an impossible task in any case, the SIB was at a further disadvantage because of its nature as a single-sector, temporary agency.

There are, however, circumstances in which single-sector agencies can be of some value, and there is an example of such an agency in the shipbuilding industry - the Shipbuilding Industry Training Board (SITB). Where there is a well-defined and politically non-controversial role to be played, an agency may well prove to be the best method. The converse is not true, however; setting up an agency does not make a problem well-defined or politically non-controversial.

31. Dell, 1973, p.171.

9.3.3 Agencies and monitoring

This section both develops a particular aspect of the general arguments about agencies developed above and expands on the issues raised in the preceding chapter on information. The SIB was a vital link in the flow of information connected with the processing of applications. There is no logical reason why monitoring following the giving of aid should be carried out by the same body that deals with applications, though the distinction between monitoring past aid and collecting information for new applications does blur when there is a series of injections of aid. Mr. Aubrey Jones, former chairman of the National Board for Prices and Incomes, expressed the view to the House of Commons Expenditure Committee that if a paragonovernmental agency is used to give financial assistance the monitoring of the financial, production and marketing performance should be carried out by a separate auditing section.³² The Expenditure Committee thought that this principle could have equal relevance if the assistance was given directly by the government. The danger with this suggestion is that there must be adequate feedback between monitoring and application-processing sections, since one of the aims of monitoring past aid should be to improve the appraisal of information given in support of applications.

There is also a danger that the existence of an agency may have adverse effects on communication between a firm and a government department. In Mr. Hepper's opinion, the SIB had proved more of a hindrance than a help to both government and the company; direct contact between the company and the department would have been better.³³

32. HC 347, Session 1971-2, para. 260.

33. HC 347-II, Session 1971-2, q.2178.

The House of Commons Expenditure Committee concluded that the government should have been more directly and closely involved in UCS, at least from mid-1969, despite the existence of the SIB.³⁴ During the crucial period of 1970 covering the last few months of the Labour Government and the first few of the incoming Conservative government there was considerably less contact and supervision by the government than there had been earlier, or was to be later. As for the SIB, the committee thought that from the time of refusing to recommend further financial support in December 1969 the SIB must inevitably have been less effectively concerned in the affairs of UCS, particularly since, on their own argument, they no longer had available the financial lever. The fact that the SIB was nearing the end of its existence may also have affected its sense of involvement - a further illustration of the special problems associated with temporary agencies discussed above.

The government, having set up an agency to deal with the industry, failed to develop adequate procedures in situations with which the agency had not been designed to cope. In his advocacy of an incremental approach to policy making, Lindblom argues: 'Suppose that each value rejected by one policy-making agency were a major concern of at least one other agency. In that case, a helpful division of labour would be achieved, and no agency need find its task beyond its capacities.'³⁵ In practice, as we have seen, such an arrangement may lead to gaps in monitoring rather than 'a helpful division of labour'.

On the general question of whether an agency is better than a government department at monitoring the use of money, the Expenditure

34. HC 347, Session 1971-2, para. 115.

35. Lindblom, 1959, p.85.

Committee's conclusion seems sound: an agency is not in itself better, assuming that both government department and agency can call equally for outside advice of high quality.³⁶ Both government departments and agencies also require internal expertise if they use outside experts - they need to be able to appraise the appraisal of experts and in particular any policy implications of information. These implications are frequently political, and no kind of institutional arrangement will be successful at preventing politicians intervening, and frequently taking direct action.

9.3.4 Conclusion

The criticisms advanced above about the value of paragovernmental agencies should not be considered as criticisms of those responsible for an agency. Indeed, Sir William Swallow, seems to have been entirely the right man for the job of chairman of the SIB; what is at issue is whether he should have been asked to take on this (impossible) job. Nor have most of the criticisms been of the idea of paragovernmental agencies in the abstract, but of the way they have to operate in practice. The SIB faced special problems as a single-sector temporary agency, but many of the comments apply to any agency where its actions will have important political consequences. Above all, this section suggests that the role of agencies in implementing policies cannot be properly assessed if it is considered in isolation from other aspects of the political process. In the final section of this chapter the SIB's role will be assessed in terms of the way it related to government departments and to the policy process as a whole.

36. HC 347, Session 1971-2, para. 258.

9.4 DEPARTMENTS AND AGENCIES IN THE POLICY PROCESS

The institutional framework for government involvement in shipbuilding has been characterised by a high degree of discontinuity and fragmentation. Like the information needs of government considered in chapter 8, the institutional framework has been determined in an ad hoc way. In part this has reflected the ad hoc nature of government involvement, but many of the institutional changes were not directly related to changes in policy approach and can best be explained in terms of administrative (i.e. civil service) convenience and contemporary political fashions. The apparently clearest attempt to match institutional arrangements to policy requirements - the setting up of the SIB - turns out on examination of its activities in terms of the policy process as a whole to have contained a number of defects.

The SIB was seen as an instrument for implementing the Geddes strategy - a concrete manifestation, intended to continue for a number of years, of what was seen at a particular point in time as the desired strategy. The economic and other influences affecting the industry deviated from the forecasts or necessary conditions defined by Geddes, but while the SIB in its dealings with firms might receive information feedback about changed factors it did not have the ability to reassess its role, which was defined by statute. The relevant government departments had to take fragmented response measures to tackle problems which were outside the SIB's terms of reference. However, the very existence of the SIB must have reduced the department's ability to get feedback from day-to-day contacts.

The experience of the SIB indicates limitations in the use of agencies. Even if such agencies could be made entirely self-regulating in pursuit of stated objectives in order to respond to changes in the environment of the industry, this would be unlikely

to be acceptable to British constitutional practice, since such responses would almost inevitably involve resource allocation. It would also be rather pointless, since the evidence suggests that governments frequently change the objectives they are pursuing as they react to new problems. This last point applies to all attempts to introduce a planning approach, or indeed to match institutional arrangements to objectives. The problem cannot be defined solely in terms of administrative flexibility, since the issues are also political ones.

CHAPTER 10

CONCLUSIONS

10.1 A TYPOLOGY OF GOVERNMENT-INDUSTRY RELATIONSHIPS

One of the themes which emerges quite clearly from this study is that the problems of government relationships with shipbuilding firms have not been simply those of government relationships with private firms. This study has not been of government involvement only in the private sector but of the role of the government in industrial change, whatever the nature of ownership of the firms involved. The extent of government ownership of shipbuilding firms has varied from zero at the beginning of the period covered by this study to proposals for nationalisation of all the larger firms by 1976, with a variety of partial shareholdings in between. It is possible to see a pattern in the nature of government involvement, both in terms of a number of categories and in terms of the development of government involvement over time. Five possible categories are set out below.

1. 'Pure' private enterprise (i.e. receiving only automatically available grants and allowances and subject to wage restraint etc.). The UK shipbuilding industry fell into this category before 1959. In this category the relationship between government and shipbuilding firms is not a special one; problems affecting the industry are either not sufficiently politically salient to cause the government to give selective assistance or it is hoped that general aid to industry will be adequate. There are relatively few problems about monitoring and control by the government. The main problem is that such a general framework is unable to prevent crises affecting individual yards arising, with demands for specific government action to deal with them.

2. Assisted private enterprise (receiving aid specific to that firm or industry; no government shareholding). An example of this type of firm was Swan Hunter prior to nationalisation or, to take an example outside the shipbuilding industry, Chrysler UK after the government had sold its shareholding. By providing direct assistance in this way the government hopes that^{it} is focussing aid where it is most needed. Once aid has been provided in this way the problem arises of how to be sure that the aid is being put to best use and to receive adequate warning of future crises. The lack of a shareholding can reduce the government's feeling of responsibility for the fate of the firm, and this was undoubtedly a major influence in the government's refusal in 1975 to take Chrysler as a gift.

3. Hybrid enterprise (mixed state and private shareholdings). UCS prior to its liquidation was an example of this type of enterprise, as is British Petroleum. In the UCS case, however, the company was also receiving direct assistance from the government. Previous chapters have made it clear that the taking of a shareholding does not in itself solve the problem of defining what ought to be the relationship between government and a firm to which it is giving assistance. Although Young and Lowe list the taking of an equity shareholding as a method of monitoring, it is clear that owning shares is not itself a method of monitoring - it is not a means of collecting the information which the government needs about a firm and will have to collect irrespective of whether it has a shareholding in that firm.¹ Indeed, as became particularly clear in section 8.5.3, there can be special problems in hybrid firms of management being unclear about their responsibility to the government.

1. Young with Lowe, 1974, p.201-8.

4. State-owned enterprise (100% or near 100% government shareholding).

Govan Shipbuilders, Court Shipbuilders after 1974 and Harland and Wolff after 1975 are examples of this type of firm, as is British Leyland after 1974. One of the strangest developments of the early 1970s was the emergence of firms which are wholly government-owned but which lie in the private sector. The distinctions between such firms and nationalised ones are that: (1) publicly-owned but not nationalised firms are not normally brought into public ownership through legislation and their responsibilities to the minister are not, therefore, statutorily defined; (2) such firms are more likely to have been brought into public ownership as part of a rescue operation than as a result of a manifesto pledge (indeed a Conservative government is just as likely as a Labour government to bring firms into public ownership in this way); (3) the ad hoc way in which this form of public ownership has arisen is reflected in the fact that this form of ownership affects individual companies, whereas nationalisation affects whole industries. This form of ownership presents the government in an acute form with the problems it faces when it has only a part shareholding: the extent to which it should seek to control the operations of the company and its legal and moral responsibility for creditors and employees should the firm continue to be in difficulty and the government wish to wash its hands of it.

5. Statutory nationalised industries. UK shipbuilding if and when the government's legislation is passed will fall into this category, though the government intends the new corporation to be different in terms of worker participation and decentralisation from traditional nationalised industries (see section 7.6). This form of relationship has at least superficially the attribute of familiarity. The problems are considerable, but have at least been met before: the

certainty of political interference even after a plan has been agreed between the minister and the industry, and the problems of ministerial and parliamentary accountability. The distinction between complete public ownership and nationalisation is well illustrated by the exclusion of Harland and Wolff, a wholly government-owned company, from the bill to nationalise shipbuilding and the campaign in Northern Ireland to have it 'nationalised' along with the rest of the industry.

Although each of these categories has special features and special problems, government does not itself seem to have analysed its relationships with shipbuilding firms or the industry as a whole in these terms. The relationship has been determined in an ad hoc way and the problems have been identified after they have arisen (though even then they have not always been identified as problems stemming from the relationship). For each category the government has been unclear about how much information it needs or wants, how much control over the firm it is willing or able to exercise, and what its resulting responsibilities are to creditors, shareholders and employees. Nor for that matter has it been clear what the initial or continuing objectives of involvement were, and if that is unclear the other aspects of the relationship cannot be properly defined.

It is possible to discern a clear pattern over the seventeen years since 1959 of movement of the shipbuilding industry through all five categories from 'pure' private enterprise to statutory nationalised industry. A similar pattern can be traced for some individual firms such as those on the upper Clyde. However, underlying this process there has not been a conscious decision gradually to increase the proportion of public ownership. Rather, the pattern is the outcome of separate decisions in reaction to individual crises. As government policy became more and more difficult to express in 'commercial' terms,

so assisted private enterprise seemed less and less appropriate as the funnel through which public funds were poured.

Shares can in fact be taken by the government for a variety of reasons. Of these the explicit desire to bring the industry into public ownership, as exhibited by the 1974 Labour government's nationalisation proposals, is the exception rather than the rule. Government's may have a shareholding in a company almost by accident: the reason the government started off with a 17.5% shareholding in UCS was not the result of a deliberate decision to do so but the consequence of the government's 50% shareholding in Fairfields. When the public shareholding was increased in mid 1969 the SIB, so far from seeking to gain control of the company, deliberately confined the size of the shareholding it took to avoid having a majority public shareholding (see section 5.2.2). One reason given for taking a public shareholding is to ensure that the government benefits from any profits arising from the assistance that it has given; in practice, such benefits have not materialised. A more realistic reason for taking a shareholding is that, unlike a loan, it does not carry a commitment by the firm to repay the funds invested by a specific date. Even when a government would prefer not to take a shareholding or would rather have some element of private shareholding, for example the Conservative government and Govan Shipbuilders, the government may be compelled to take a shareholding because the lack of prospects of viability means that private investors are unwilling to put in any money.

Apart from the type of assistance and the level of state ownership of shares, relationships between the government and firms can also be complicated by the customer-client relationship involved in placing orders for naval ships. The reduction of the number of yards to be invited to tender for ships as recommended by both the Geddes and

Booz-Allen Reports had important implications for a number of firms in the industry. However, the use of naval orders to plug gaps in the order books of non-specialist yards illustrates the continuing role of such orders as an ad hoc instrument of government policy. In general, firms for which naval orders are a large part of their total orders are in a highly dependent relationship with the government. However, the dependence is mutual. For strategic, as well as for the more general employment reasons, governments cannot afford to let specialist naval builders collapse. Accordingly, the government will attempt to ensure that they have a reasonable level of profitability, and will provide funds if one of them should get into difficulties, as with Yarrow in 1971.

Relationships between the government and industry can also be complicated by the existence of paragovernmental agencies dealing with some aspects of policy towards the industry. As was shown in section 9.3, the setting up of an agency may do nothing to solve the essentially political problems of communication, control and responsibility. Indeed, when viewed in terms of their role within the policy process as a whole their existence can hinder a clearer definition of what the government sees as being its relationship with the firms to which it has given aid.

This confusion over the relationship between government and industry has not been confined to government alone. The House of Commons, too, seems ill-adjusted to scrutinise the variety of relationships between government and firms. Partial or complete government shareholdings seem to be considered to be in the private sector and therefore come under the Trade and Industry Sub-Committee of the Expenditure Committee, while nationalised industries come under the Select Committee on Nationalised Industries. Thus Govan

Shipbuilders as a 100% publicly owned 'private' firm was examined by the Expenditure Committee and the Public Accounts Committee, but as part of a 100% publicly owned Nationalised industry it will presumably come under the Nationalised Industries Committee.

Businessmen, too, are often confused about their relationship with the government. This is shown not only by Mr. Hepper's comment that as chairman of UCS he did not know to whom he should report, but also by the public attempt in 1976 by Sir Kenneth Keith, chairman of the state-owned Rolls-Royce (1971), to have his relationship with the National Enterprise Board and the government clearly set out.

The development of government involvement in the shipbuilding industry suggest that a simple classification into private and public sectors is becoming increasingly irrelevant because of the variety of types of government assistance and the ways in which shareholdings can be held.² This pattern will become more complicated with the introduction of planning agreements as a result of the Industry Act 1975. This makes all the more strange the assertion by the then Prime Minister, Mr. Harold Wilson, to a meeting of the Socialist International in 1974 that 'confidence demands that a clear frontier must be defined between what is public and what is private industry'.³ The British government appears to be unaware of the blurring of this distinction between private and public sectors as a result of government involvement, far less the need to work out what its relationship should be with firms in each of the categories listed earlier or how to cope with changes between categories.

2. MacKenzie, 1976, p.7 has also come to the conclusion that 'the distinction between public and private sectors is now so riddled with anomalies that it must be re-thought'.
3. Times, 1 July 1974.

10.2 CAN GOVERNMENTS MAKE AN INDUSTRY COMPETITIVE?

10.2.1 Defining competitiveness

In discussing shipbuilding policy politicians have not made clear what they mean by such phrases as 'promoting competitiveness' or the even more ambiguous 'prospects of viability'. One difficulty in arriving at an operational definition is that 'competitiveness' is a relative, not an absolute, term. That is, it invokes a comparison between one firm's (variable) performance and another firm's (variable) performance. Measures to improve UK performance up to the existing performance of competitors are likely to be inadequate, even if successful, since those competitors will also be trying to improve their performance. It will be difficult to anticipate just how much the performance of competitors may improve. There are three ways in which a government can try to make an industry 'competitive'.

1. Not intervene. If the government refrains from rescuing firms in difficulty, all loss-making firms will go out of business (though their physical assets and workforce may be taken over ^{by} other firms). By definition, all remaining firms are competitive. Presenting this option in this stark way shows that government policy is not really about making the industry competitive in this sense at all. Insofar as the government does wish the industry to be competitive this is subject to employment preservation constraints.

Until the mid 1960s governments did not intervene to assist individual yards in difficulty, and as a consequence a number of yards ceased operating. However, governments took fright when they were faced with large-scale localised redundancies in areas with above average unemployment. Governments are, however, still prepared to stand back if the employment consequences are small enough, as the Labour government's refusal to rescue Drypool illustrated (see section

7.4). An echo of the non-interventionist approach remains in the oft-proclaimed but rarely acted-on intention expressed by governments that they are not prepared to give open-ended support to yards which are unable to compete otherwise.

As chapter 6 showed, there are considerable political difficulties in trying to carry out a general policy of non-intervention; the short-term political pressures which seem to predominate are overwhelmingly in favour of intervention where the number of jobs at stake is large. A policy of non-intervention need not necessarily mean a dramatic decline in the total number employed in the industry as a whole, as some yards have actually expanded to the extent that they have experienced labour shortages. However, all the evidence of previous chapters suggest that it is not the aggregate figure for the industry as a whole or even the figure for a specific estuary that is politically significant, but threatened redundancies in a specific location irrespective of expansion elsewhere.

The snag is that once you have removed the market definition of competitiveness it is difficult to decide what is the 'optimum' size of the industry. A comprehensive anticipatory strategy (rather than an ad hoc rescue approach) to take account of the employment preservation instincts of government would be for the government to stipulate the size of employment in shipbuilding it desired, including its distribution, and ask how much this would cost; it could then trade off jobs against aid at the margin. However, this approach would be subject to a number of difficulties in practice: (1) it would be subject to the usual forecasting uncertainties; (2) it assumes that the government's objective of employment preservation is clear cut, but while the evidence suggests that it is predominant in practice, the government's stated objectives may be multiple and

conflicting, and only by ex post analysis can the predominant objective be determined; (3) the amount of aid required to preserve employment depends on behaviour by those in the industry, but this in turn can be affected by the knowledge that the government wishes to preserve a certain amount of employment.

Two ways in which the government might try to make an industry 'compete', other than by allowing the market to eliminate unprofitable firms are set out below; both have been reflected in government policy in practice. Both these approaches are likely to be wasteful in resource allocation terms, even given market imperfections over space and time in the reallocation of resources and manpower employed by a particular company. It was argued in section 6.3.8 that the regional economic implications of such market imperfections are sometimes exaggerated and do not justify the sums of money spent on keeping people in their existing jobs. If the aim were to optimise resource allocation, policies would be better directed at reducing the market imperfections, of which some, such as council house policy, are government induced, rather than by diverting additional resources to freeze the existing pattern. However, for the moment it is assumed that governments will try to preserve employment in existing shipyards anyway and we are merely examining whether there is more than one way of doing this. Later in the chapter we will drop the assumption that employment has to be preserved in shipbuilding.

2. Pump-priming. The assumption here is that by giving a certain amount of aid for a period a firm will thereafter be able to compete without further assistance. Pump-priming aid can be either to improve physical facilities or to alter behaviour in the desired way. This was the Geddes approach, and was briefly tried by the government in 1967-9. Subsequent aid has sometimes been described in pump-priming

terms, but is more properly considered under the subsidies and rescue operations heading below. The experience with shipbuilding policy in 1967-9 suggest that it is very difficult to be successful with a pump-priming approach. Particular difficulties are caused if competitiveness has to be achieved with a given size of workforce. If a firm has not carried out investment or improved its performance in the absence of aid then it is prime facie not the best suited to put that aid to best use unless management at board and plant level is altered. (This conclusion should be qualified to the extent that the need for government loans for investment has arisen because of the imperfect capital market in the UK or difficulties in raising funds because of the threat of nationalisation). It is arguable that the management of change requires greater competence than the management of the status quo. Even given the most competent management, however, a pump-priming approach faces considerable difficulties, which are elaborated in sections 10.2.2 and 10.2.3. These difficulties frequently result in pump-priming developing into rescue operations.

3. Subsidies and rescue operations. This approach rests on the assumption that a firm or industry is incapable of competing without long-term subsidy, though rescue operations may be disguised as pump-priming exercises. To include this as a way of making the industry 'competitive' seems to go against the common-sense understanding of the word, and its inclusion here is justified only because politicians have stretched the meaning of the word in this way. In this sense, 'to compete' can be taken to mean 'to survive'. Calls for aid to British shipyards are sometimes justified by claims that foreign shipbuilders are receiving subsidies or other devious forms of assistance but, apart from a healthy scepticism about some of these claims (see section 1.4.3), it is not immediately obvious that such

foreign assistance should be matched yen for yen. The decision about how far to match aid given to competing countries is a political one, as much as is the decision about how far to go beyond this in bailing out individual companies.

If an anticipatory approach in dispensing subsidies were adopted an attempt would be made to identify firms at risk and direct aid to them in advance of any crisis which might involve redundancies. The difficulties with this approach are in part forecasting (it is difficult to be completely accurate in identifying firms at risk or quantifying the aid required) and in part political (discriminatory subsidies channelled only to firms at risk will arouse the ire of other firms in the industry). On the other hand, indiscriminate subsidies of the kind introduced in 1972-5 are wasteful, and if long-term are most likely to be objected and possibly matched by foreign competitors. The temptation is therefore to adopt a reactive approach and rescue firms only where there is an immediate and present danger of redundancies. Given the assumption that the government's aim is employment preservation within shipbuilding firms, this policy of reacting to circumstances can be seen to be both rational and less wasteful of resources than some alternatives. On almost any other basis, however, this approach is profoundly wasteful; in order to preserve ultimately 6,200 shipbuilding or similar jobs on the upper Clyde, the government set aside between 1967 and 1975 up to £102m for UCS (excluding Yarrow) and Govan Shipbuilders and Marathon. This works out at about £16,000 per job 'preserved'. For each separate injection of aid the figures were much lower, but because the rescue approach suppresses the undesired state of affairs but may do little to deal with the causes producing the crises, the problem and the need for rescue are likely to recur.

To minimise its outgoings, the government may try to combine pump-priming with rescue operations. In view of the difficulties set out in sections 10.2.2 and 10.2.3 it would be foolish for the government to assume that this would eliminate the need for future rescue operations, though it might reasonably hope that some attempt to bring about improvements might reduce the amount required for the next rescue operation from what it would otherwise have been. Unfortunately the incentive to improve performance is reduced if the workforce believes that whatever happens it is likely to be rescued anyway.

The above analysis is based on the assumption that governments are concerned to preserve employment in shipbuilding firms; this conforms with observed government practice in the 1960s and 1970s. If, however, we assume that this approach is second-best to a more generalised one where it is assumed that governments simply want to avoid large-scale additions to the numbers of unemployed in areas with already high unemployment, then we can examine policy options which may have little to do with enabling shipyards to sell ships in the face of competition from other yards. These options will be examined in section 10.4

10.2.2 Generalising about implementation

In chapter 1 Pressman and Wildavsky's analysis of implementation and King's concepts of 'dependency relationships' and 'non-compliance' were outlined as having a possible relevance to the analysis of shipbuilding policy. During subsequent chapters the implementation of particular aspects of government shipbuilding policy was considered. This section aims to generalise the analysis of implementation in the authors referred to and in the present study in a way which will enable broad conclusions to be drawn about the implementation of shipbuilding

policy - or a wide range of other policies.

Pressman and Wildavsky deliberately chose a case study of a project which operated in a sympathetic environment; virtually all participants were agreed on the ends to be pursued. They did so in order to illustrate that implementation can be difficult even in such a sympathetic environment. Internationally competing industries, on the other hand, operate in an environment part of which is inherently hostile. Decisions by other countries are likely to be detrimental to the UK industry (though not necessarily so), and if such decisions have a strong effect on the UK industry they will impede successful implementation.

Another issue of importance in generalising about implementation is the determination of when the implementation stage is taken to begin. Pressman and Wildavsky start their study once initial projects within a programme had been approved. However, difficulties can arise even at the stage of finding suitable projects, which provides an early pointer to faulty programme design. For example, a programme launched in 1975 in the UK to encourage investment in the machine tool industry by providing concessionary loans of up to 50% of eligible costs or the equivalent in interest relief grants met with such a disappointing response that it was changed a year later to a straightforward grant of 25%. Chapter 5 showed that there may be difficulty in securing initial projects which conform with the desired approach; and, despite the industry's obvious need for money, not all the SIB funds available for loans was taken up. It therefore seems appropriate to consider implementation for this study to start one stage further back than Pressman and Wildavsky, that is to include the 'clearances' associated with project submission and approval.

Both Pressman and Wildavsky and King carry out their analysis in terms of one or two time-related chains of identifiable and discrete decisions. This may not be appropriate when full implementation depends on patterns of behaviour requiring frequent or perhaps continuous performance in a certain way. This distinction can be brought out by pointing out the difference between a trade union signing an employment charter and its members cooperating in improving performance from day to day. There may not be so much a decision point as a continuous potential or actual veto by perhaps even a small group of workers in the industry. This is, of course, relevant not only to shipbuilding but a number of other industries in which the government is involved, notably the car industry.

Another area of influences where it is not appropriate to think in terms of decision points are those which are determined through a market or as a result of a general phenomenon. Thus demand for ships is the result of a multiplicity of choices going back eventually to purchases by consumers, while inflation has a profound effect on the success of shipyards. The choices which bring about inflation are not taken with a view to their effect on shipbuilding (though choices made by the government can be identified as specially significant).

Even where it is appropriate to talk of decision points, because competitiveness is a relative concept there is not a single chain of decisions, but a chain of decisions for each country (for each firm, in fact). Promoting the success of an industry competing in a world environment is a far more complex undertaking than the relatively simple project examined by Pressman and Wildavsky. There are far more decision points, as well as a wide range of other influences involved and we should therefore expect implementation to be much more complex and the chances of a favourable outcome more remote.

Clearly, very few of the influences on the success of government industrial policy can be seen in terms of 'non-compliance' (one of the terms used by King) because this carries the implication that the person or organisation whose compliance is desired is in a hierarchically inferior position to the person or organisation requesting compliance. This is inappropriate for analysing many of the influences affecting the success of British shipbuilding - Japanese shipbuilders can hardly be expected to be 'compliant' to the British government's wishes! The term 'non-performance' (also used by King) is more generally applicable if it is taken to refer not only to specific decisions but to situations in which a desired set of circumstances does not prevail.

It seems appropriate to consider the outcome of government industrial policy as being determined, not by a single chain of decisions, but by a flow of decisions and performance which contains several chains of decisions and performance in a number of contexts. This flow is illustrated in simple form in fig. 10.1. This flow can be broken down into various components, each of which have different probabilities of producing results favourable to the desired outcome.

1. Intra-UK clearances

A. Intra-agency clearances (including government departments where directly responsible). Given the basic sympathy with the desired outcome, there is a very high probability of favourable clearances, including the approval of suitable projects.

B. Intra-governmental clearances. (i) Industry specific, such as approval of SIB recommendations by the Ministry of Technology and Treasury; the probability of favourable clearances is fairly high, though political considerations may result in decisions which do not conform with the desired outcome as originally stated. (ii) Non-industry specific, such as rating policy, tax policy, steel prices;

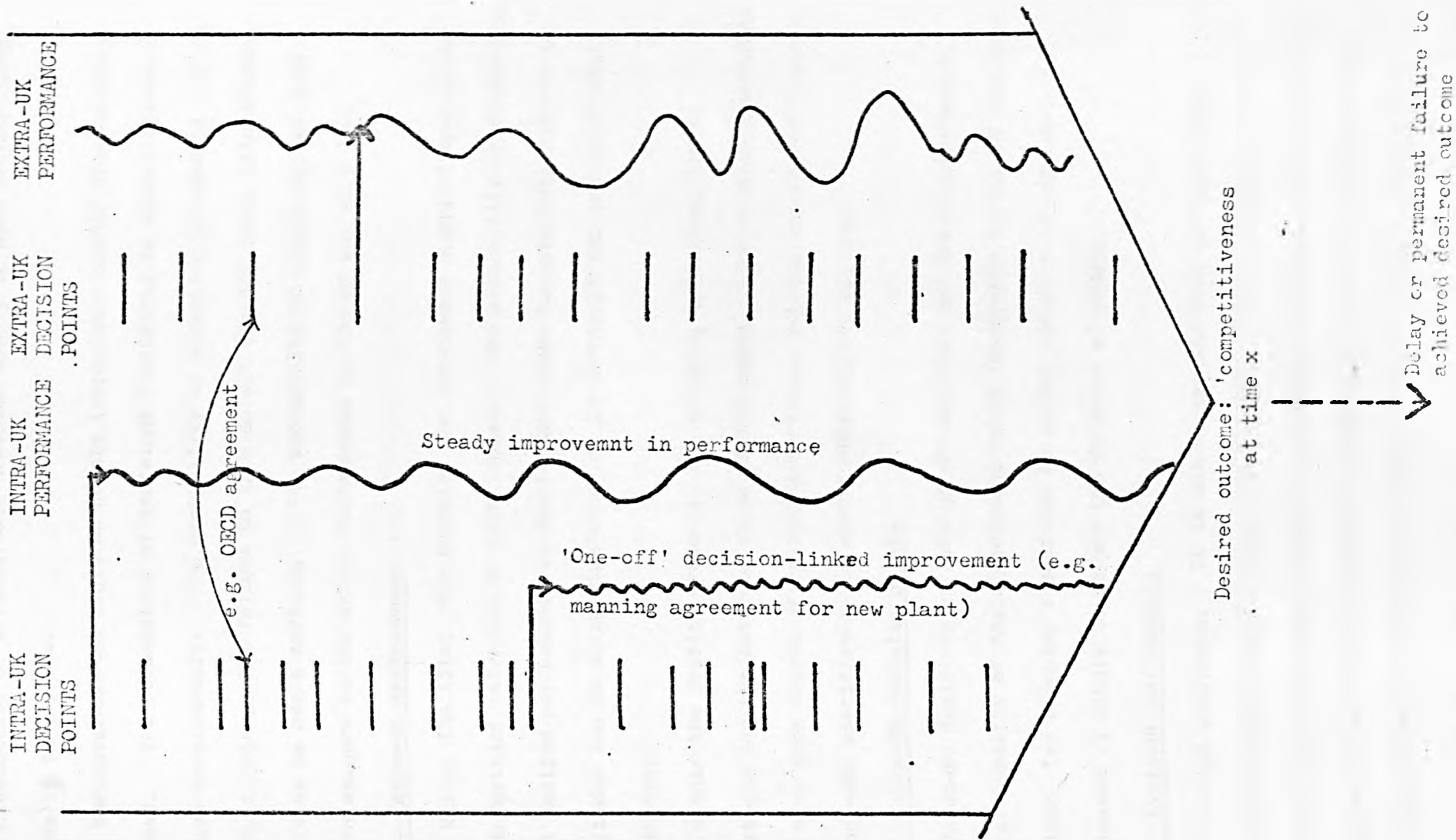


Fig. 10.1

the probability of a favourable decision simply to meet shipbuilding needs is fairly low.

C. Non-governmental decision points (especially within shipbuilding firms). The probability of decisions favourable to competitiveness varies considerably. The probability of accepting government aid is high, though as the failure to take up all the SIB loans illustrated, it is by no means certain. The probability of unions agreeing to union mergers to the extent recommended by Geddes was very low.

2. Intra-UK performance

A. Within the firm; for example, the day-to-day speed of operations or industrial relations at plant level. The probability of achieving full desired performance is low in many cases because this depends on attitudes and relationships which it is difficult for the government to change.

B. Within the British economy; for example, inflation, labour shortages and the external value of the pound. The British government may have some degree of control over these, but the chances of changes being made specifically to assist shipbuilding are low.

3. Extra-UK decision points

These cover decisions by foreign shipbuilders and their governments. The probability of their decisions being favourable to the UK industry is low; for example, a decision to expand capacity or introduce new equipment is likely to reduce the UK share of orders.

4. Extra-UK performance

A. Foreign shipyards. It is almost certain that at least some competitors will improve their performance. Many competitors have behaviour patterns more conducive to securing maximum output from new equipment than yards in the UK. Because of this, the problem cannot be regarded as the UK trying to pass a fixed level of performance,

because the threshold of profitable performance is constantly advancing.

B. The world economy; for example, the demand for various types of ship. This is one of the factors most difficult to predict. In the long term, countries best able to adapt to demand for new types of ship should do best. However, the UK can sometimes be at a comparative advantage: because it had not gone in for the construction of large tankers on such a scale as Japan, the UK suffered less severely than Japan in the slump in the mid 1970s.

5. 'Mixed' decision points

This refers to decisions which involve clearances by both UK and foreign countries; for example, DECD and EEC agreements affecting government assistance. In general, the UK may be able to veto any adverse change from the status quo, but will find it difficult to secure a change in the status quo favourable to the UK but adverse to competitors. For example, in 1976 the EEC gave only a grudging acceptance to the UK government's inflation-cushioning aid to shipbuilders on the understanding that it was temporary and would gradually be applied more restrictively. A further problem with international agreements is that of enforcement. British shipbuilders have argued that some competitors are not observing the conditions of DECD agreements in trying to obtain orders in the mid 1970s slump.

Fig. 10.1 illustrates these influences in terms of a flow of decisions and performance over time. The same influences can be depicted more abstractly as in fig. 10.2 in terms of the distinction between government programmes, recommendations directed at non-governmental actors and epiphenomenal influences, and of the distinction made in section 1.5 between implementation/non-implementation and successful/unsuccessful implementation. In practice, there will be

'PACKAGE DEAL' OF RECOMMENDATIONS

POLICY
MAKING

RECOMMENDATIONS DIRECTED
AT GOVERNMENT

Government's programme
(e.g. aid provided in
legislation)

Implementation/
non-implementation/
partial implementation

Successful/
unsuccessful implementation

Fig. 10.2 Influences on the outcome

RECOMMENDATIONS DIRECTED AT
MANAGEMENT AND UNIONS

EPIPHENOMENAL
INFLUENCES

Agreement/non-agreement in
principle to recommendations

Implementation/
non-implementation/
partial implementation

Successful/
unsuccessful implementation

Market conditions
and decisions by
governments and others
which have as a by-
product (rather than as
a direct objective) an
influence on the UK
shipbuilding industry

OUTCOME

of government policy

considerable interaction between the government's programme, non-governmental actors and epiphenomenal influences before the stage where each separately has an influence on the outcome. Fig. 10.2 does illustrate that failure to achieve the outcome desired by the government can arise in one or more of a number of ways, even after the government has announced its policy or passed relevant legislation:

- (a) non-implementation of government policy;
- (b) unsuccessful implementation of government policy;
- (c) non-implementation of recommendations directed at non-governmental actors;
- (d) unsuccessful implementation of recommendations directed at non-governmental actors;
- (e) epiphenomenal influences which are different from those expected.

There are, therefore, a whole range of influences which can affect the ability of the government to secure the outcome it desires. The overall effect which they have on the probability of success is analysed in the next section.

10.2.3 The improbability of success

The previous section considered in some detail the extent to which success at achieving competitiveness depends on appropriate decisions being taken and levels of performance achieved by a wide range of individuals and institutions. In some areas there was a high probability of favourable decisions being taken, but in others there was a very low probability of favourable circumstances obtaining. Even if there had been only seven decisions to be taken in a single chain of decisions and there was a 90% chance of a favourable decision in each case, the overall chances of success are less than 50%.⁴

4. Cf. Pressman and Wildavsky, 1973, pp. 107-9; King, 1975, pp.292-3.

In practice, as section 10.2.2 showed, many important decisions have a much lower chance of being favourable, there are many more decisions involved than only seven, and there is more than one chain of decisions involved. It is also important to remember that decisions are rarely on/off decisions in the sense of being wholly favourable or wholly adverse; they may provide only part of what is needed or result in a delay.

This analysis suggests that a policy by the British government to make the shipbuilding industry competitive within a fixed time period was and is almost bound to fail. This remains true even when allowance is built in for increased costs or delays in achieving this objective. This more general conclusion reinforces the argument at the end of chapter 5 that the success of the Geddes strategy would have required the existence of a set of circumstances many of which would have been unlikely individually and which in combination were virtually impossible. Too much should not be made of these unfavourable circumstances, however; world demand for ships in the late 1960s and early 1970s was very favourable compared to the slump facing the industry in the mid 1970s. These arguments apply mainly to the pump-priming approach, but as the analysis of Conservative policy in chapter 6 showed, even making the industry competitive by not bailing out uncompetitive firms is not guaranteed successful completion because the government was unwilling to take the decisions to follow it through in individual cases.

Successful implementation depends on two related points: the degree of control which the government can exercise over the influences on the outcome of a policy, and the government's political willingness to take the decisions necessary to follow up its declared policy. This study has shown quite clearly that the government has very little control over many of the most important influences on the shipbuilding

industry's ability to compete. In part this is because there are technological or economic factors determined at global level, but in part because it is not considered acceptable in Britain for the government to use coercive means to force, say, workers to man new machinery at optimal levels (even if coercion could be guaranteed to achieve the desired effect). This lack of control by the government over these influences does not mean that they are insurmountable, but the irony is that the British shipbuilding firms which have coped with them best have generally been the ones in which the government has been involved least. Government involvement does not seem to be a wholly adequate substitute for deficiencies in a firm, whether due to location, poor facilities, managerial ability or poor productivity. Given the conditions likely to prevail, a policy of trying to make otherwise badly uncompetitive firms 'viable' at some future date through government assistance is quite likely to fail. Failure is not guaranteed, but success depends to a considerable extent on the existence of favourable conditions over which British governments have little control. Where success is so sensitive to influences over which the government has little control, or is unable even to predict reliably, it is fair to suggest that faulty policy design is involved if favourable conditions are assumed.

The above discussion has been based on the assumption that government policy has often been underlain by the hypothesis that a fixed amount of government assistance would produce competitiveness, and it has been argued that this hypothesis is quite likely to be incorrect in practice because it depends on a large number of conditions which in aggregate are unlikely to occur. Though it has not always been made explicit by governments, policy has also normally rested on the hypothesis that a fixed amount of government assistance would produce

competitiveness, which would in turn avert large-scale redundancies. This is even less likely to be true than the simpler hypothesis, because some measures to improve competitiveness may reduce the amount of labour required for a given output or for particular skills within a shipyard. When this hypothesis was falsified in practice, it was reversed: a fixed amount of labour and productivity levels which improved to some extent would imply a particular level of loss and government funds to meet this. However, even then, as experience with Harland and Wolff and Govan Shipbuilders has shown, there is a high probability that hoped-for productivity levels will not be achieved. This is because, as governments have discovered to their embarrassment, they have little control over productivity levels.

Even where the government does have a high degree of control, however, it may not choose to exercise that control in the way that would be indicated by its own declared policy. In other words, there is by no means 100% certainty that governments themselves will take the necessary clearance actions to implement their stated policies. This was illustrated by the Labour government stepping outside the SIB framework, which it had itself set up, to rescue UCS in 1969, and by the Conservative government's aid to the upper Clyde yards despite its supposed policy of no special assistance for the industry. These examples show that implementation is not simply a matter of administrative techniques, an appropriate institutional frame work or good monitoring - though these are important - but also of continuing political decisions.

Just as there has been faulty policy design because of lack of government control over important influences, so there seems also to be design faults in the political aspects, since policies seem to be formulated without full consideration of what the government's own

reaction is likely to be to events which experience shows are all too likely to occur. If we think of policy as the implementation of decisions rather than the theory underlying government declarations, then British shipbuilding policy in practice has largely been the result of responses by the government to individual problems rather than the successful working through of declared policies, even where these have been embodied in legislation.

In their study of government intervention in the mixed economy, Young and Lowe draw attention to the way in which the government has sought to gain influence at the level of the firm because of the 'bottleneck' by which general macroeconomic and non-regulatory measures fail to persuade firms to alter their behaviour in the desired way.⁵ However, this study has shown that operation at the level of the firm is also beset by frustrations and failures. These cannot be overcome simply by improved project appraisal and better monitoring as discussed both in this study and in Young and Lowe, though such improvements would undoubtedly improve the quality of involvement. Ultimately the problem rests with the government's lack of control over events (not simply over management discretion) and its lack of political willingness to follow through the implications of its own declarations.

10.3 THE RELEVANCE OF MODELS OF POLICY MAKING

Clearly, British policy making on shipbuilding has not conformed to either of the synoptic models, the rational-comprehensive model or the Simonian rationality model, described in chapter 1. The synoptic approach, has, however, been valuable in this study as a tool in analysing government policy. Only by being synoptic in analysing the

5. Young with Lowe, 1974, especially chapter 3.

influences in shipbuilding and on government policy has it been possible to assess the reasons for the failure of government policy and to suggest that in principle it is very difficult for governments to make an industry competitive. Narrowness of focus in determining government policy has been responsible for the exaggeration of the potential impact of government intervention.

However, a more synoptic policy-making approach would not have ensured the success of government policy. What it would have done would have been to draw attention to the higher probability of failure than of success, the need for more funds initially if the government was serious in wanting to make a short-term impact, the need for greater anticipation and flexibility in a rapidly changing environment, and, related to the previous point, the need to regard the policy process as a whole to ensure adequate monitoring and feedback of information to policy makers.

Certainly, a synoptic planned approach of a static nature would, if anything, have made things worse; for example, if all alternatives and consequences had been reviewed and a fixed plan laid down for the next ten years. The fate of the Geddes approach, as embedded in legislation, which in a limited way represented a move towards a more synoptic approach, illustrates the difficulties which arise when a forward projection is made at a fixed point in time and is not subsequently subject to continuous review. A more planned and a more synoptic approach than the one adopted by the British government would have to be a dynamic one, with continuous feedback and review as outlined in section 8.1, if it were to be able to cope with the certainty of large unpredictable changes in major influences on the industry.

What are the chances of the British government adopting such an approach in government industrial policy? The chances are almost negligible, for two main sets of reasons. The first, and less important, consists of the inherent limitations in policy makers of knowledge, understanding, ability to forecast, and ability to compare options. Even given these limitations, the costs in manpower and finance of a more synoptic approach would represent a much larger proportion of the total costs of the policy. The more important set of reasons is political. Policy makers in Britain rarely want to make or are capable of making all their objectives or preferences clear. There are also few incentives for ministers or civil servants to take a long-term view and set aside current problems in favour of those which might preoccupy their successors. There is little incentive to spend more time and money on being more synoptic if the result may be to indicate not only that a favoured project has a low chance of success, but that there is a considerable degree of uncertainty even about the size of that limited chance.

Of the models of policy making outlined in chapter 1, the one which clearly comes closest to describing how British government shipbuilding policy was made is the incremental model of Lindblom. Ends and means have not been distinct; thus policy on some occasions has not been simply to preserve employment (ends), but to preserve employment through promoting competitiveness (means confused with ends). The analysis which was carried out by the government before taking decisions was limited in a number of ways; important possible outcomes were neglected, though not simply in the favourable sense mentioned by Lindblom of reducing the information requirements of decision makers. One of the important possible outcomes which government neglected was that its policy had a very high chance of failure; another was that

one of the outcomes might be redundancies, which would lead to the government intervening further.

However, some qualifications should be made to the statement that the incremental model is the closest to describing British shipbuilding policy in practice. The first concerns the size and nature of financial commitment which can properly be considered 'incremental'. In terms of total public expenditure or of expenditure on industrial policy as a whole, most decisions about aid to shipbuilding have represented only a small proportion of total expenditure and could therefore be considered incremental. In terms of shipbuilding policy only, however, it is clear that decisions have varied in the extent to which they can be regarded as incremental, both in terms of the size and the nature of the commitment. Decisions to provide further assistance to a firm which has already received help are clearly different in nature as well as normally in scale to decisions such as the introduction of the Shipbuilding Industry Act 1967 or of general subsidies under the Industry Act 1972. Similarly, aid to individual yards which had already received assistance could vary considerably in size, with Scott Lithgow receiving a further £1.5m in loans and Govan Shipbuilders being given an initial package of £35m. Thus there seems to be a need to distinguish between incrementalism as a non-synoptic approach to decision making, which characterises almost all British government decisions about shipbuilding, and incrementalism as involving small steps from the existing policy, since some of the sums of money involved in shipbuilding policy decisions were considerable and some of the decisions represented changes in declared policy by the government.⁶

6. Cf. Bailey and O'Connor, 1975.

Similarly, there seems to be a need to distinguish between incrementalism in the two senses already referred to, and incrementalism as a way of making decisions by compromises amongst a number of participants in the policy process, with each attempting to bargain with the others to secure the best deal for themselves. This process of 'partisan mutual adjustment' is clearly linked in Lindblom's analysis with incrementalism as a non-synoptic or non-comprehensive approach, and as an approach involving only small changes from existing policies.⁷ However, this connection need not necessarily exist in logic or in practice.⁸ As chapters 8 and 9 have shown, there were a large number of government departments, paragovernmental agencies and committees to inquire and advise involved in the shipbuilding policy process, but the relationship between them was not normally one of partisan mutual adjustment amongst competing or bargaining participants. The multiplicity of institutions involved was rather a reflection of fragmentation in the policy process: both fragmentation between bodies responsible for policy recommendations, policy selection, implementation, monitoring and evaluation, and also fragmentation over time between bodies responsible for the same activity.

A further qualification about the appropriateness of the incremental model relates to the way in which under the model policy is determined through a series of 'successive limited comparisons'. Thus Lindblom argues that if a policy maker 'proceeds through a succession of incremental changes he avoids serious lasting mistakes in several ways'.⁹ One of these ways is that 'past sequences of policy steps have given him knowledge about the probable consequences of further

7. See e.g. Lindblom, 1959.

8. Bailey and O'Connor, 1975, p.91.

9. Lindblom, 1959, p.86.

similar steps'. (To this extent, Lindblom is arguing as an advantage of his model what could be obtained through a planning model with feedback). The assumption in Lindblom's claim is that governments will not take further steps of a similar nature if previous ones have failed. However, despite the fact that injections of money into firms have failed to produce competitiveness, British governments have persisted in injecting further sums on a number of occasions, normally with equally unsuccessful results. In part, this is because there has never been full analysis of the reasons for the failure of previous aid, but in part it is because government policy has consisted of reaction to a number of separate crises rather than to approach the problem from the start as involving a series of related incremental choices.

Thus the incremental model can imply a number of logically separate things: a non-synoptic approach, decisions which do not differ significantly in nature from previous policy, decisions which involve relatively small extra commitments of funds, decisions made as a result of bargaining amongst a number of participants, and making decisions in terms of a series of small-scale commitments. While noting that British shipbuilding policy has tended to conform more to the incremental model than to the rationality model, it may therefore be more useful to describe British shipbuilding policy not as incremental, but as non-synoptic, fragmented, reactive and ad hoc.

It is appropriate to conclude this section on the relevance of models by pointing out that the British government has never used them as a guide to how it ought to make policy for the shipbuilding industry. It has never made an explicit decision about how it ought to make decisions about the shipbuilding industry. The fact that British shipbuilding policy has conformed more to the incremental model

than to the rationality model does not reflect a deliberate decision by the British government that this was a preferable way to make policy.

10.4 THE POLITICS OF INDUSTRIAL CHANGE

10.4.1 The political salience of shipbuilding

The two major British political parties have at times adopted considerably different stances in their declared policies towards the shipbuilding industry. Yet both have ended up giving considerable sums of money to the industry. Even after allowing for the effects of inflation there has been a steady trend which has continued irrespective of the party in power for the sums of money involved to increase. Both the Labour party's policy of enabling the industry to stand on its own feet in the future by providing a limited amount of pump-priming aid and the Conservative's non-interventionist approach were abandoned when confronted with the prospect of large-scale redundancies.

This suggests that we should look for underlying determinants of government behaviour which are more powerful than ideology. The pattern of government involvement described in this study suggest that the political salience of an industrial problem, in the sense of the amount of government time and public funds which it can command, is strongly determined by a number of locational factors. The first of these is the importance of individual firms or yards as employers at community level because of the large unit size of plant (i.e. yard); large-scale highly localised redundancies are more politically salient than the same number of people made redundant in small-scale dispersed redundancies. Secondly, redundancies in areas of relatively high unemployment will attract more attention than those in areas of lower unemployment. Here, however, there is a temporal aspect in addition to the locational one. During the 1960s and 1970s the long-term rate

of unemployment rose steadily, and this undoubtedly increased the political importance of averting large-scale redundancies. It is an interesting reflection on the political significance of relative unemployment rates that the 'high' unemployment levels of shipbuilding areas in the mid 1960s are well below the UK average rate in 1976. The final locational aspect of political salience is the existence of special non-industrial political problems for the government in some areas; thus since the late 1960s civil strife in Northern Ireland and the rise of nationalism in Scotland have ensured special attention for industrial problems arising there. These locational aspects of political salience are mutually reinforcing in a way which is illustrated diagrammatically in fig. 10.3. Most shipyards score high on at least two of these locational aspects. Drypool was the exception which proved the rule, since its yards were not particularly large and not in an area of particularly high unemployment and were not rescued. Similarly, aid to the car industry can in part be explained by the large size of plant in the industry. In particular, the government's rescue of Chrysler at the end of 1975 and the form which that rescue took were heavily influenced by the problem of the Linwood plant, a large plant in an area of relatively high unemployment (not far from the shipyards on the upper Clyde) with a special political problem (nationalism, particularly after the adverse reaction to the November 1975 White Paper on devolution).

Having established the significance of these locational (or, in a loose sense, regional) factors, it is important to avoid falling into the trap of regarding the government simply as a maximiser of either the regional economic interest or its own political advantage in electoral terms at regional level. Much of the aid to shipbuilding is, in fact, very difficult to justify in regional economic terms (see

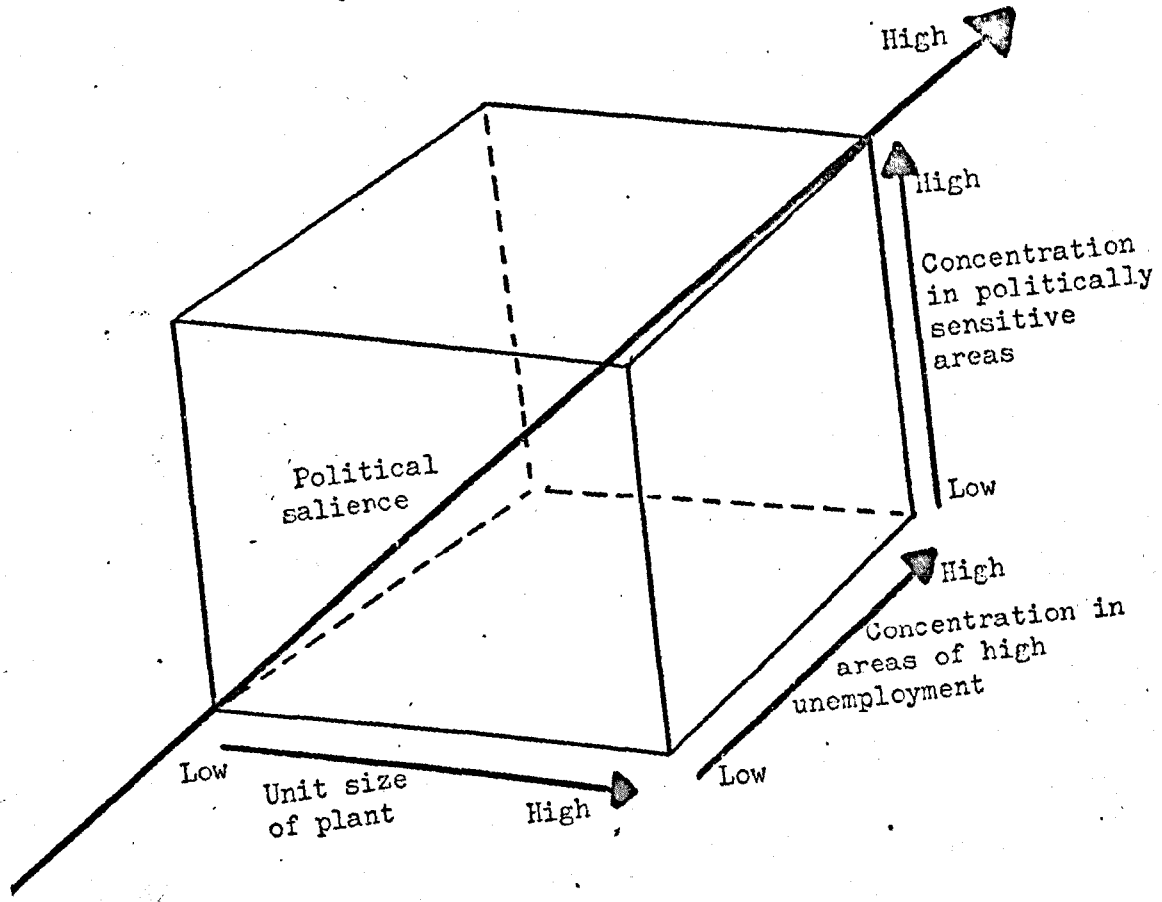


Fig. 10.3 Locational aspects of political salience

particularly section 6.3.8). The hypothesis that governments in assisting a particular industry seek only to maximise local electoral advantage does not stand up very well either. If anything, we know even less about the electoral impact of decisions affecting a particular locality than we do about their economic impact. For example, political scientists have no idea of what ^{effect}/rescuing a yard or factory has on the votes of employees and others in the affected constituencies or whether there is a 'spillover' effect to other constituencies. From looking at constituency voting figures and the distribution of the employees of Govan Shipbuilders it seems unlikely that the Conservatives could have hoped to gain any Clydeside seats by rescuing the upper Clyde yards or have risked the loss of any of the few remaining Conservative seats if they had allowed the yard to go under (on the assumption that most shipbuilding workers don't vote Conservative anyway).¹⁰ Thus government behaviour may be 'irrational' not only in terms of regional economics but also of local political advantage.

The locational aspects of the political salience of the shipbuilding industry seem rather to operate through the reactive nature of government decision making in Britain (see especially sections 8.2 and 10.2). Large plant size and concentration in areas of high unemployment are more visible, more likely to be reported by the press, and more likely to be the subject of a campaign by the workforce and others in the locality. In reacting to the problem, governments see the easiest way to make the problem 'go away' as being to provide aid to preserve at least some of the existing jobs.

10. Figures on the distribution of employees supplied by Govan Shipbuilders.

The above are not the only factors which influence the government's willingness to provide aid. Another very important factor is how the government perceives the market for the firm's product. If the overall market is expanding, then even when the share held by a firm or the national industry as a whole is declining, the government is less likely to allow redundancies than if it considers that the market for the product is contracting. Thus the government tolerated the severe contraction of the coal industry in the 1950s and 1960s because it considered the industry to be a declining one. In the early 1960s during the shipbuilding order slump, the Conservative government saw some contraction as inevitable and allowed yards to close. From the mid 1960s to the early 1970s world demand for ships was expanding, and governments normally bailed out yards to give them a chance to 'compete' for a share in this expanding market. Other things being equal, it would be expected that the present (1976) government would be more prepared to tolerate redundancies because of the world-wide slump in orders, and the Secretary of State for Industry did, indeed, declare in 1976 that he sees redundancies as inevitable. However, the reduced marketability of the product is here at least partly balanced by increased unemployment and the special political problems faced by the government, especially in Scotland.

10.4.2 The continuing problem of industrial change

As we have seen in this study, attempts to avert large-scale localised increases in unemployment have taken the form of preserving existing jobs. This is often because governments have little time to make decisions and have no alternatives available. However, if the problem is seen as one of averting large-scale increases in local unemployment

either by subsidising workers in their existing jobs or by providing some alternative employment, the issue becomes a general one of coping with the consequences of industrial change. Within any industry, whether growing or contracting at aggregate national or regional level, there are likely to be some firms in danger of collapse or which could become more competitive if they could shed some of their workforce without the industrial relations problems which frequently attend redundancies.

The consequences of industrial change are one of the main features of British society, yet the British government, because of the fragmented and reactive way it operates, has no coherent policy to tackle these consequences. As a result, it makes a series of ad hoc decisions to avert the consequences by trying to freeze the change. Britain can probably carry the burden of bailing out its shipyards in perpetuity, but not its shipyards, a large part of its car industry and an increasing number of other firms. This study has indicated that the government can hope for little success in averting the problem by aid designed to get the firm 'back on its feet'.

Insofar as the real problem is that of industrial change, governments are more likely to be successful if they seek to tackle the problem directly rather than try to suppress the symptoms of industrial change. The evidence presented in this study suggests that governments aren't very good at seeking to promote industrial change within firms that have got into difficulties. However, since the government has tended to intervene only because of the painful consequences of large-scale redundancies, the logical short cut to take is to make the consequences of those redundancies less painful rather than take increasingly expensive and not altogether successful courses of action to prevent the redundancies taking place at all.

Existing redundancy payments and unemployment benefit are designed to enable workers to get through a period of job transition, but these are obviously not yet enough for workers to accept redundancies without resistance. (The surprisingly high number of volunteers for redundancy at Chrysler's Linwood plant after the rescue of the firm at the end of 1975 was probably due to the fact that workers had been on short time for a considerable period). It would be cheaper for the government in some circumstances to offer workers involved in large-scale redundancies in areas of high unemployment much larger redundancy payments (i.e. a non-incremental increase). It would have been cheaper to have given the workers of Govan Shipbuilders £10,000 each than to have set the new company up.

Apart from making it more likely that workers will willingly yield up their jobs if the company is no longer profitable, the government would, of course have to take measures to make it easier to find new jobs. In other words, the government could subsidise changes of jobs rather than preservation of existing jobs. It is nothing short of crazy that the government should have poured millions of pounds into the upper Clyde yards at a time when the lower Clyde yards were crying out for workers. One contribution to tackling this problem might have been for the government to subsidise transport or new housing specifically for workers changing their jobs.

It could be argued that such measures, which effectively amount to buying out imperfections in the labour market, fail to meet the criticism that new jobs would not be specifically matched in terms of time or location to the redundancies. There is no doubt that this is one of the important factors in resistance to redundancies. However, it is still possible in principle to meet such objections without necessarily preserving existing jobs. It may not always be possible

to anticipate threatened redundancies, but the working party which reported on the formation of UCS made it clear that redundancies would be necessary, and if the government had chosen to it could have made alternative arrangements. Here economists could make a direct contribution. Instead of all-or-nothing comparisons of the cost of keeping the men in existing jobs with the cost of having them unemployed, it should be possible to assess whether it would be cheaper per job preserved per year to keep some or all of the men employed in shipbuilding or to subsidise new industrial operations in addition to normal regional aids (many of which are, in any case, available to shipbuilding). In any case, the government could announce in advance of the analysis that it would ensure either that the bulk of the workforce were given alternative jobs without the need to go through the normal labour market or that it would provide the necessary subsidy for existing jobs in the unlikely event that this was shown to be the long-term optimal use of public funds (optimal, that is, given that large-scale redundancies in sensitive areas are to be avoided). This represents a change of policy only insofar as it proposes that governments announce in advance what recent history suggests they will do anyway, though by leaving it until redundancies are imminent the option of considering alternative job creation is normally closed. Prior announcement of a government commitment to provide jobs one way or another ought to make it easier for a firm to secure the cooperation of its workers in deciding the optimal size of workforce, with or without pump-priming aid.

In suggesting alternative new industrial operations, it would be sensible for economists to suggest operations with low unit size of plant so that if some of them fail, as they surely will do, the economic and political impact will be reduced. As far as possible, alternative

employment should not be sensitive to cycles in world trade. No matter how efficient a shipbuilding firm is, it is likely to do badly when there is a world slump in orders, as there was in the early 1960s and there is at the present time. It is arguable that, far from there being special reasons for preserving shipbuilding in depressed regions, shipbuilding is precisely the wrong sort of industry to have in a politically sensitive area of high unemployment.

However, while sound in principle, such an approach of matching specific new jobs to specific redundancies would face many of the same problems in practice which have led to the failure of shipbuilding and other industrial policies in the past. First of all, there would be the need for improved monitoring of the state of shipbuilding firms to provide enough advance warning of the need for alternative jobs. Secondly, there is little evidence to suggest that governments would be any better/^{at}choosing new firms which would be successful or require only a specified level of subsidy than they have been at determining the need for subsidy to maintain existing jobs. Above all, as section 10.2 has illustrated, there is a world of difference between specifying an approach for the government to adopt and being able to guarantee the desired outcome. It is perhaps worth remarking that Sweden, often held up to British governments as a model of how to cope with job transition, has reacted to the problems of its shipbuilding industry in the same way as the British government - by rescuing individual yards and by providing subsidies. At the beginning of November 1976, the Swedish government announced aid of over £311m, largely to meet expected shipbuilding losses, though with some money going towards costs related to the planned shutdown of one of the yards.

Accordingly, one is left with the tentative proposition that moves towards treating the problems of the shipbuilding industry as part of a general problem of industrial change rather than of preservation of

existing shipbuilding jobs in existing locations ought in principle to lead to fewer of the difficulties and less of the waste of money associated with the approach adopted by governments in the 1960s and 1970s while taking into account the factors which appear to give the industry political significance, but that this alternative approach would by no means eliminate the economic and political problems of the existing approach.

The inclusion of such options as encouraging labour mobility or providing specific alternative employment would represent a move away from a fragmented or incremental approach and towards a 'rationality' or planned model, albeit a very limited one. More alternative courses of action would have to be considered, more consequences analysed, and a more anticipatory approach adopted. Here, of course, lie the reasons why such an approach is unlikely to be adopted by a British government. To promote such an approach would be to advocate not merely a change of policy, but a whole change of style of government. The task of implementing such a change of style would be even more daunting than making UCS or Govan Shipbuilders profitable.

For all the innovations designed to introduce a more planned approach to government, such as PESC and PAR, there is relatively little sign of this having any impact on industrial policy. The CPRS may produce a concise report on the car industry, but on the same day the government announces that it is rescuing Chrysler, in flat contradiction to the implications of that report. The government proclaims that it intends to back winners, but still rescues Govan (again), Harland and Wolff (again) and Cammell Laird (again). The much vaunted 1975-6 industrial strategy is nothing more than a collection of reports on individual industries: it has nothing to say about the general problems of industrial change. Yet the pace of

industrial change is likely to increase rather than diminish, and problems of threatened redundancies will continue to exist, whether due to technological change, incompetent management or poor productivity. The most likely response to this problem is a continuation of the existing fragmented, reactive, and expensive policies.

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- (1) Items referred to in the footnotes by author and date are listed alphabetically by author. Reports referred to by the name of the chairman or organisation producing them are included in this list.
- (2) House of Commons Papers are listed by session and number.
- (3) Command Papers are listed by number (with Cd and Cmd numbers preceding Cmd numbers). Command Papers which are reports and which are also referred to by the name of the chairman are listed under both the author list and the Command Paper list.
- (4) Periodicals referred to in the text are listed alphabetically.
- (5) Interviews are listed by the date on which they were conducted. The relevant post held by the interviewee is listed; where a number of relevant posts were held by the same individual these are all listed.

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7 November 1973. Civil servant in shipbuilding sections of various ministries in mid and late 1960s; secretary to an inquiry committee into shipbuilding.

7 November 1973. Member of Parliament who held junior ministerial and shadow ministerial responsibilities for industry in the late 1960s and early 1970s.

13 November 1973. Chairman of Shipbuilding Advisory Committee in 1940s and 1950s.

- 19 November 1973. Permanent Secretary at Ministry of Transport in early 1960s; chairman of Shipbuilding Advisory Committee; chairman of an inquiry committee into shipbuilding.
- 20 November 1973. Member of Parliament for a constituency with large shipyards; holder of posts in backbench committees on shipping and shipbuilding in the 1960s and 1970s.
- 29 November 1973. Liquidator of Upper Clyde Shipyards.
- 30 November 1973. Civil servant in shipbuilding section of various ministries throughout 1960s; managing director of a shipyard at date of interview.
- 3 December 1973. Member of board of shipbuilding company from mid 1960s to early 1970s; chairman of shipbuilding company in mid 1970s; academic writer on shipbuilding.
- 11 December 1973. Minister heading department responsible for shipbuilding in 1950s; holder of posts in backbench committees on shipping and shipbuilding in 1960s and 1970s.
- 4 April 1974. Chairman of an inquiry committee into shipbuilding.
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