One of the challenges which not only Ed Miliband but also others in the Parliamentary Labour Party and wider Labour movement know they need to face will be the claim from David Cameron and much of the media that the Party is reverting to ‘Old Labour’ and therefore doomed to fail. This article aims to help counter this by demythologising some central myths spun by the architects of ‘New Labour’ about Labour in the seventies and into the eighties.

It contests the claim of Gerald Kaufman that Labour’s Programme 1983 was the longest suicide note in history, and contrasts this with the ironic comment from Alistair Darling, after he moved to nationalise banks in 2008, that the government’s policy now was Labour’s 1983 Programme. But with the difference that, while the 1983 Programme had recommended public ownership of financial institutions, this was not to salvage them and underwrite failure, rather than to ensure that savings were shifted into economic and social investments rather than financial speculation.

The article also seeks to gain context for Jim Callaghan’s ‘shock’ statement to the 1976 Labour Conference that ‘in all candour … you can’t spend your way out of recession’. For on this he was in part right. One of the limits of post-war Keynesianism was precisely that its focus on demand management had neglected that the investment horizons of big business were longer than not only annual budgets, but also of governments, and already global rather than only national, which was why Labour’s Programme 1973 had made the case for Planning Agreements with such

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firms to seek to ensure that a demand management programme was matched by a supply response.

Jim also was frank on his learning up on this, telling me during a vote in the Commons just after the 1979 election:

‘If we had been re-elected, I would have introduced Planning Agreements. I became increasingly convinced during the last government that we need them to deal with multinational companies’.1

This was some recognition. Planning Agreements had been stigmatised as outdated central planning, civil servants running industry and a variant on Gosplan, whereas they were based on emerging ‘best practice’ in continental Western Europe, and Japan. But if Jim’s learning up was three years too late to help Labour in government in the 70s, Peter Mandelson took three decades to learn only half of the lesson. It was only in 2009 that the former key architect of ‘business friendly’ New Labour, and then Business Secretary observed, after meeting French business leaders, that:

‘We have something to learn from continental practice … We are not talking about public ownership, nor are we talking about centralised planning’.

In this admission he also recognised that France was better at setting strategic goals and objectives, citing examples such as nuclear energy, high speed rail and aerospace.2

Yet what the by then Lord Mandelson entirely missed was that public ownership had been central to French industrial strategy in precisely these sectors of nuclear energy, high speed rail transport and aerospace. It also has been crucial to France being able to take a long-term view of investments and sustaining commitment to them. In the 1950s, French planners set the publicly owned Electricité de France the target of gaining four fifths of national energy through nuclear power, and achieved it without a Three Mile Island meltdown. It was through its publicly owned SCNF that it achieved its high speed TGV national rail system, now in its second generation, while Britain’s privatised rail system is limping.

Without long-term finance and public ownership in sustaining Concorde, despite it never covering its development costs, France would not have retained the advanced engineering capacity in aircraft which made Airbus possible. It was not strategy alone that challenged Boeing’s monopoly in civilian jet aircraft but that Airbus Industrie was jointly owned by governments. A cleaner, quieter and larger Concorde 2 could have been viable if Britain had not refused the offer of a joint venture in the 1960s to develop it. Britain abandoned its Blue Streak aerospace
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launcher and pulled out of the European launcher development organisation (ELDO). France’s continued commitment to its Diamant launcher was the basis of its later Ariane and the European aerospace programme.

Also, while praising French industrial strategy, Peter Mandelson at the time was proposing to privatise the British Post Office, apparently unaware that a key to the success of planning in France has been that its publicly owned postal savings bank, the Caisse des Dépôts et Consignations, has for decades assured a long-term supply of savings for productive investments in the private sector. He also appeared either not to know or have repressed that Labour’s election manifestos in 1974, when it won two elections, had drawn centrally on both such public ownership and planning in France as a condition of value for public money in private sector whether this was through grants to them, or public purchasing from them, and that such French planning through leading firms had been a basis and legitimation of Planning Agreements in Labour’s Programme 1973.

Planning Agreements

In contributing to this, I had modelled the case for Planning Agreements on French, Italian and Belgian experience. The French case was especially compelling and almost entirely unknown in the UK until I cited it in papers I wrote for the Trade and Industry sub-committee of the Commons Expenditure Committee and the Industrial Policy Committee of the Party. Especially, the French case for planning through leading firms challenged the ‘indicative planning’ which had underlain Labour’s 1965 National Plan.

The presumption of the National Plan, advocated by Wilson’s then economic adviser Thomas Balogh, for whom I had worked for some time in the Cabinet Office, was that French planning worked through sectoral ‘modernisation committees’. This had been plain to the Conservatives before 1964, who had modelled the National Economic Development Committees or NEDCs on them. But, by 1965, the French Ministry of Finance had started directly negotiated agreements with major companies – in the first instance Contrats de Stabilité or stability agreements, and by 1966 into Contrats de Programme or planning agreements.

I had learned of this shift towards planning through leading firms in January 1966 from Jean Saingeour, then Director of Planning at the French Ministry of Economy and Finance. I had walked into his office with a copy of Francois Perroux’s Techniques Quantitatives de la Planification which I had been reading. Perroux’s case was that the modernisation committees were talkshops, and that what planning in a market economy needed was
a workshop style agreement with *firmes motrices* or leading firms. In an oligopolistic economy, it was they who decided what was done, where, when and how. Perroux also stressed that France should compete not by lowering costs and benefits but by promoting and sustaining innovation in a Schumpeterian manner. Saingeour stressed that Perroux’s approach had been very influential with the Ministry.

It had. In introducing stability agreements with leading firms, the Ministry of Economy and Finance had undertaken that they could change any prices they wished for any product, provided that their overall turnover-price ratio averaged a given rate consistent with a national target for inflation. The aim was a macro policy outcome, i.e., if big business price leaders kept to the target, it was more likely to be met.

Yet those involved in negotiating the agreements quickly realised that they had no proper knowledge of the basis on which firms were declaring costs, not least through internal and international transfer pricing. In other words, leading firms allowed their different subsidiaries to charge prices to other subsidiaries or the parent company, which inflated their cost base and under-stated real overall profits. This included research and development costs, which the Ministry had no way of evaluating at arms length, and also import costs from subsidiaries either nationally or abroad.

It was in response to this that the ministry introduced *Contrats de Programme* or planning agreements. These meant that companies had to submit information on the whole range of their costs and pricing in both their national and international operations. The Ministry also decided to use *Contrats de Programme* to make grants or public spending contracts conditional on more investment in less developed regions and greater commitment to innovation and long-term investment projects.

The scale of this operation within the Economy and Finance Ministry was striking. Half of its administrative level staff was engaged in gaining information from leading firms and negotiating Planning Agreements at a time when the British Treasury had just appointed its first economic adviser.

The outcome in France today, and the contrast with the UK, is evident. They have a public high speed TGV rail system for which they produce all the rolling stock and equipment. We do not. They still have a comprehensive French controlled industrial sector, including vehicles and trucks, tyres, electrical and mechanical engineering, chemicals, electronics and computer companies. We do not. Their nuclear power generation industry works well, and has taken over what remained of Britain’s. They have avoided de-industrialisation. The UK has not. Where Britain still has even a reduced civil aircraft industry, it was due to the insistence of the
French on our not backing out of Concorde, and thus preserving the base long-term for Airbus Industrie. Westland helicopters, meanwhile, has been taken over by Augusta – a subsidiary of Finmeccanica, which itself is a subsidiary of the Italian state holding company IRI, on which I had modelled the case for the National Enterprise Board, of which more below.

I used the example of the French – and parallel Belgian and Italian – planning agreements in the first paper which I submitted to the Industrial Policy Committee of the Labour Party. But I had also given a paper on them, and advocated their adoption, to Harold Wilson when working for him through Thomas Balogh in the Cabinet Office. I later directly advocated them to Harold in 1967 when he brought me into the Political Office in No. 10. I argued that this approach – planning through leading firms – was how to re-launch The National Plan, which had collapsed with the deflationary package of July the previous year. Harold claimed to be impressed and passed the paper to Peter Shore, who had taken over from George Brown at the Department of Economic Affairs. But there was no follow through. There was no re-launch of the National Plan.

This partly influenced my decision to resign from No. 10 in 1968. I little knew at the time that I would return with Planning Agreements backed by the Labour Party National Executive Committee, every major trades union and the Party Conference in 1973. But the fact that one-to-one advocacy on the basis of precedent and detailed argument had been ineffective with a Prime Minister certainly influenced the vigour with which I pursued the Planning Agreements case thereafter through the Industrial Policy Committee of the Party.

The case for Planning Agreements as means to gain more investment and employment in the regions meanwhile had been reinforced by the second report from the Trade and Industry Sub-Committee of the Expenditure Committee, which followed their recommendation of a major British State Holding Company in Public Money in the Private Sector. The committee had been considering evaluation of the effectiveness of agricultural price support. But I persuaded its chair, Bill Rodgers, and he the committee, that the scope and limits of this was well known, whereas whether the government was getting value for public money in regional development grants – then running at 40% subsidy for any investment in scheduled development regions – was not.

My assessment was that companies going to the regions did so for availability of labour and would have gone there irrespective of government subsidy at such a high rate. The committee then took evidence from some 75 of the top companies in the UK. Not one of them was
prepared to claim that government grants had been the decisive factor in its decision to locate new plant in the regions rather than labour availability. In this regard, we were not using public money for a public purpose but giving it needlessly, and with no return, to some of the biggest companies in the country to no effect.

The report from the Expenditure Committee confirming this powerfully reinforced the case for Planning Agreements as the basis on which leading companies would be obliged to trade returns in kind – whether regional investment, or more R&D in the UK, or long-term innovative investment – in return for public grants or public purchasing or, less typically, but not ruled out, public loans.

Not least, I had documentation on both the form of Planning Agreements – their templates – as introduced in France, Italy and Belgium, and which leading companies had accepted them in these countries. I passed these to the Inflation Sub-Committee of the Industrial Policy Committee of the National Executive, in February 1973, with a cover note of half a dozen pages placing them in the context of the change within French planning has shifted from modernisation committees to direct negotiations with firms. In the Belgian case I also made available summaries of actual Progress Agreements signed with leading companies such as Siemens. The Siemens agreement included commitment to a four year programme which would more than treble its investment and quadruple its employment in Belgium and open entirely new plant in the country’s scheduled Development Areas.

With trade union support, Siemens also committed itself to a programme for new methods of work organisation.

**State entrepreneurship**

Such evidence legitimated the case for Planning Agreements as a complement to direct action through the state holding companies modelled on the Italian Industrial Reconstruction Institute (IRI) and the Italian State Hydrocarbons Agency (ENI). Shortly after, I made exactly the same case for State shareholding in what proved to be a key paper to the Industrial Policy Committee of the Labour Party. The case ran as follows:

1. Location of modern and advanced technology companies in the regions.
2. Channelling of government expenditure into directly productive investment as a growth promotion or counter-recession instrument.
3. Reinforcing macro-economic trade and exchange rate policies through investment which was import-substituting or export-promoting.
4. Countering the concentration of economic power through competitive public enterprise in both industry and finance.
(5) Offsetting short-termism by undertaking investment which private industry either was not willing to commit or unwilling to make on a scale or time horizon sufficient to meet long-term growth requirements.

(6) Promoting and reinforcing new innovation trajectories. This case for State holdings was for making markets work in the public interest – including firms which could not gain long-term regenerative finance from stock markets (British Leyland), could not afford to innovate their own technical breakthroughs rather than license them abroad (Ferranti), or needed long-term funding to reinforce and promote what already had been considerable market success (Sinclair).

A central point about state shareholding on the IRI model was that while the main holding company would be 100% owned, the holdings in individual companies could be much less and even minority. This was not ‘old style’ nationalisation but the case for selective state shareholding.

It was the more compelling for the NEC at the time in view of already available figures on the marked trend to concentration in British industry. The top 100 companies had increased their share of manufacturing output from 20% in 1950 to over 40% by 1970, and their share of manufacturing employment to a third. The top 30 firms accounted for a third of total UK visible export trade, the top 75 for nearly half such trade.

Thus the fabric of small firms presumed by the competitive market model had given way to the dominance of two, three or four firms in any single market. In the promotion of mergers between British firms on the largely misplaced grounds of gaining economies of scale, the 1960s Labour government’s Industrial Reorganisation Corporation actually had concentrated rather than countervailed such producer power.

Also, such giant firms were multinational in dual senses: either they were controlled from abroad or had invested abroad on a scale which tended to substitute for exports. Unlike Germany or Japan at the time, whose value of production from subsidiaries abroad was only two fifths of their national exports, the value of production by British firms outside Britain was more than double total UK visible export trade.

Foreign production on such a scale tended to substitute for exports, with loss of multiplier effects and growth in the domestic economy. Price-making power by a handful of such multinational companies in each of the main sectors of industry was reinforced by their ability to understate exports or overstate imports in transfer pricing between domestic or foreign subsidiaries in such a way as to inflate nominal costs, reduce registered profits and avoid corporation tax.
Transfer pricing was evident to me by the early 70s from research into the electronics industry by one of my doctoral students at Sussex, but also more extensively from Monopolies Commission reports. In 1974, Shirley Williams became Secretary of State for Prices and Consumer Protection. When I told her that Hoffman-La Roche was selling Librium and Valium to the NHS at £370 and £922 per kilo while an Italian company was selling them on the market for £9 and £20, she suggested that Roche halve the price, but did not follow through.

When Tony Benn was Secretary of State for Energy, I alerted him to the fact that a white collar Scottish trades unionist had told me at a conference that he now understood why the prices of components from the US parent company for an oil rig being constructed on Clydeside were being inflated hand over fist every month, and that he anticipated that the company would claim the yard was unprofitable and either tell the government it had to buy and shelve the rig, or close the yard, which the company then did.

Tony knew of the problem of transfer pricing but lacked the powers to do anything about it since Harold Wilson had made Planning Agreements with multinationals ‘voluntary’ which, in effect, had gelled them. But this, by the mid 70s, therefore was frustrating both the Right and Left of the Labour Government, not least since transfer pricing, by inflating subsidiary component prices, reduced declared profits and tax. This was why, among other reasons, Jim Callaghan volunteered that he had become convinced that Labour government needed Planning Agreements to deal with multinational companies.

The dominance of most markets by a handful of giant multinational firms meant that the conventional micro-macro distinction in economic theory and government thinking was outdated, which had prompted me to conceptualise their power in The Socialist Challenge as mesoeconomic, from the Greek mesos meaning intermediate or in between the economy of small micro firms and macro outcomes yet dominating both, which gained little resonance in mainstream economics at the time, but anticipated precisely the phenomenon of ‘too big to fail’, which has led to vast public subsidy of a handful of banks whose recklessness has plunged the western market economies into crisis.

The case that I made both in The Socialist Challenge, and to the NEC, was that indicative national planning meant little or nothing to the executives of such multinational companies other than that by sitting on National Economic Development Councils they could gain themselves a place in the honours list. In turn, their global reach already had undermined the effectiveness of the principal Keynesian demand policies, which were
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premised on perfect or imperfect competition on the supply side of a national economy. Keynesian national fiscal and exchange rate policy was already profoundly compromised.

It was on such grounds that I argued the six-point case for competitive public enterprise in my 1972 report on European Para-Governmental Agencies to the Expenditure Committee on Trade and Industry chaired by Bill Rodgers. The State could not countervail oligopoly power unless it itself became an entrepreneur. The cross party committee both accepted my report and then visited IRI and its affiliate companies, as well as leading private sector companies such as FIAT and Pirelli in Italy. In its own report, the Committee recommended the establishment of a British State Holding Company on the lines I had advocated.

Knowing of my just published edited study of IRI in 1972, and being given a copy of it, Roy Jenkins asked me whether I would draft the case for a British state holding company. He was planning a series of speeches on what the next Labour government should do, which then were published by Fontana under the title ‘What Matters Now’.

I recognised Roy both as a highly progressive Home Secretary in the 1960s and as an opportunist, knew also that this was a bid for leadership of the Party, which he admitted, but was not much concerned with this rather than that leading figures in the PLP should learn up on what had gone wrong in the 1960s and make the case for new dimensions to public ownership in what now were the new ‘commanding heights’ of the national economy, rather than the ‘commanded depths’ of basic industry and utilities that Labour, rightly enough, but with limited leverage on manufacturing or finance, had nationalised after the war.

Roy made plain that the first of his series of speeches would be on The Needs of the Regions, which had resonance then as now, and asked a question which later was to be echoed by the lesser known John Chalmers, who was the chair of the Industrial Policy Committee of the Party at the time, and which then was to hit headlines in the entirely false claim that the NEC aimed to ‘nationalise’ the ‘top twenty five companies’. The question was how big a State Holding Company would need to be to register real gains for the regions.

I stressed that to do so it would need to be able to promote a ‘broad wave’ of new investment by firms in the UK, otherwise there would be no net investment in entirely new plant for the regions. He asked me to analyse and spell out the sectors. I did, by an analysis of the regionally mobile or ‘footloose’ sectors of industry which were not location specific or capital intensive. This excluded most of the nationalised industries
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which either were highly capital intensive, or geologically specific, such as coal, or distribution specific, such as rail, the post, gas and electricity. I told him I was not sure he needed to cite all rather than an illustrative handful of them, but he did in the opening chapter on The Needs of the Regions in his ‘What Matters Now’.25

As Roy put it, the State Holding Company should be represented in:

‘the whole wide range of the engineering and motor vehicle industries, together with hosiery and other clothing, pottery and glass, furniture, pharmaceuticals and one or two others … [It] would have to grow steadily from the base provided by existing holdings in private industry … But there already is a solid base, we own 49% of BP, now the largest and among the most profitable of British companies. We own Rolls Royce, we have a stake in a number of other companies. These, supplemented by a limited amount of selected nationalization, should provide a good base from which to diversify into the labour-using industries which the regions require.’26

As for finance to embark on what Roy called the State Holding Company’s ‘extensive programme of acquisition and diversification’, this should come partly from its own profits, partly from Government grants, and partly from the capital market’.27 Roy’s case, as thus published, was more radical in scope – ‘the whole wide range of engineering’ and ‘its extensive programme of acquisition and diversification’, plus only a management constraint on its rate of growth – than the NEC Green Paper on The National Enterprise Board, which limited its build up over time to shareholdings in from twenty to twenty five companies.28 It required short-term amnesia, or failure to read it first, for Jenkins to condemn the NEC Green Paper as ‘outdated nationalisation dogma’ and then seek to contrast it with his case for state shareholdings in his What Matters Now.

So what now?

So what lessons can be learned from this now by Labour with a new leadership? There is only scope here to draw some of them, which relate to countering myths in order to better confront current realities.

The first is that the case of Labour’s Programmes from 1973 through to and including the 1983 Programme was not for ‘outdated nationalisation’ or civil servants running industry or a variant on Gosplan but for making markets work in the public interest and gaining accountability for public money in the private sector.

The second is that the case first was endorsed by the Right of the Party, in the case of Bill Rodgers and Roy Jenkins, who knew it well since Bill
Rodgers had chaired the Expenditure Committee of the Commons, which had gained cross party support, and Roy Jenkins had endorsed it in his 1972 *What Matters Now*, before they both reneged on it when it was adopted by the NEC.

The third is that this was well informed by advanced industrial strategy in economies such as France and Italy where success had been based on the combination of public ownership and planning at the level of leading firms.

The fourth is that this was not ‘Old Labour’ looking back but already a ‘New’ Labour case, based on recognising trends in globalisation and the need to countervail them to avoid de-industrialisation and the loss of effective taxation through transfer pricing and other techniques adopted by multinational capital.

The fifth is the need to recognise that de-industrialisation has occurred and that an industrial strategy now needs to be regional, through the regional development agencies, which were part of Labour’s 1973 Programme, were introduced in the case of the Scottish, Welsh and Northern Ireland Development Agencies and, from 1997, in England.

The sixth is that Labour should not only salvage banks but also manage them in the public interest, which will become more relevant to what is needed if the cuts in deficits in the UK and Europe result in a double-dip recession.

There are others. One is recovering the principle of mutual societies as a means of safeguarding personal savings and investments, which they were before the appropriately named 1986 ‘Big Bang’ of bank liberalisation began the process by which mutuals then were allowed to speculate with such savings.

Another is making more use of European finance through the European Investment Bank which, since 1997, has been able to fund investments in health, education, urban regeneration, the environment and green technology with the advantage also that such finance need not count on the public sector borrowing requirement.

All of which can contribute to the claim of John Smith that markets should serve people and not people serve markets.

**Notes**

1 He prefaced this by allowing that I might not believe him. But I did, since there was an implicit logic in any national government needing to gain leverage on big business for the use of public money in the private sector. Jim also asked whether I would prepare material concerning the activities of multinationals for a speech he was to give shortly on the subject, which I duly did.
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4 Even our long standing major companies such as GEC in electrical and mechanical engineering and ICI in chemicals have been stripped down or hollowed out.

5 The Italian version of Planning Agreements or Programmazione Contrattata, were mainly concerned with gaining regional investment by private companies in Southern Italy.

6 Stuart Holland, French Incomes and Prices Policy, Cabinet Office, 2 December 1966.


9 Employment was to increase from 1,100 to 4,100 jobs in electronics and computers, telecommunications and medical equipment. Contrat de Progrès Entre l’État Belge et S.A. Siemens, ST. no. 265/ 8.5. 1970.


12 See further The Annual Census of Production and S.J. Prais, The Evolution of Giant Firms in Britain, Cambridge University Press, 1976. Professor Prais’ had kindly made the key figures of his study available to me for use before publication.

13 See further The Department of Trade’s Annual Overseas Transactions Enquiry, HMSO. The top 75 firms reached the 50% share of visible export trade in 1975.

14 Bertil Ohlin gained the Nobel Prize for Economics in the work in which he pointed this out, although point thereafter was lost to most theorists of international trade. Cf. Bertil Ohlin, Interregional and International Trade, Harvard University press, 1933 and revised edition 1967.


16 Hoffman-La Roche was quick to point out that the Italian company had disregarded its patents, and claim that the price difference reflected its R&D costs. But Shirley Williams appears to have made no effort to ask for a revelation of such costs, or the transfer price.


18 Perfect competition assumed that firms were price takers from sovereign consumers rather than price makers. Imperfect competition simply argued that
firms priced on a cost plus profit basis, rather than maximised profits and minimized tax by transfer pricing between their subsidiaries.

19 See inter alia my contribution to Wayland Kennet, Larry Whitty and Stuart Holland, Sovereignty and Multinational Companies, Fabian Tract 409, July 1971, for many of whose insights I was much indebted then as now to Robin Murray, at the time with the London Business School, later at the Institute of Development Studies at Sussex and later head of the employment committee of the Greater London Council.


23 At a lunch with me and Eric Roll, who had been the permanent secretary to George Brown at the Department of Economic Affairs.

24 This ‘broad wave’ approach had been advocated by Ragnar Nurkse and Paul Rosenstein-Rodan. Their case, however, had been for broad ranging infrastructure in countries which lacked it, rather than through companies.


26 Roy Jenkins, ibid. p. 35ff. ‘Hosiery and other clothing’ were his idea, not mine. But they took his recommendations that a State Holding Company should be represented into more than the twenty to twenty five sectors which the next year was to be advocated by the National Executive of the Party.

27 Roy Jenkins, ibid. pp. 35-36.