

No Cosy Deals: The Postwar Settlement and Economic Growth in Britain*

J. D. Tomlinson

Brunel, The University of West London

The long-run relative decline of the British economy in the twentieth century has been subject to waves of interpretative effort. In the 1980s, for example, 'culturalist' explanations, were popular, focusing concern on the perceived failure of British entrepreneurship and seeing this failure as a symptom of the mismatch between British culture and the requirements of economic dynamism.¹ In contrast, that same decade also saw the strengthening of long-standing critiques of British industrial arrangements, especially at the company level.²

A key trend of the 1990s literature has been towards seeing this decline, at least in the twentieth century, as grounded in government failure. In the 1930s, for example, it is argued that this failure took the form of government support for protectionism, cartels and monopolies, policies which aided short-term recovery of the economy at the expense of long-run growth.³ In the 1940s the same attitudes led to implicit contracts between unions, employers and managers which, in an uncompetitive macro-environment, encouraged a 'low-effort equilibrium'.⁴ Drawing in part on the work of Olson, this view sees governments in the 1940s as having been subject to effective rent-seeking behaviour from entrenched and largely unreformed sectional interests, and the result was a set of 'cosy deals' which set Britain on its postwar path of low

* I am grateful to Nick Tiratsoo for helpful comments on the first draft of this paper.

¹ Wiener, *English Culture and the Decline of the Industrial Spirit* (London, 1985); C. Barnett, *The Audit of War* (London, 1986).

² B. Elbaum and W. Lazonick, *The Decline of the British Economy* (Oxford, 1986).

³ S. Broadberry and N.F.R. Crafts, "Britain's Productivity Gap in the 1930s: Some Neglected Factors", *Journal of Economic History*, 52 (Sep. 1992), pp. 531-58.

⁴ S. Broadberry and N.F.R. Crafts, "Britain's Productivity", p. 539; S. Broadberry and N.F.R. Crafts, "The Implications of British Macroeconomic Policy in the 1930s for Long Run Growth Performance", *Rivista di Storia Economica* 7 (Feb. 1990), pp. 1-19.

growth.⁵ This approach has shown signs of solidifying into orthodoxy by incorporation in a major recent textbook.⁶

Works with this style of interpretation have ranged widely in time, but the focus of this paper is the 1940s. This focus is justified on two grounds. One, it was a period which, by common consent, set the parameters of much of postwar British economic policy, at least down to the 1980s. Second, there is now available a large body of research material and published research on the period, which allows some assessment of the 'cosy deals' story.

The next section looks at the policy regime of the 1940s. The second looks at the government's relationship with the trade unions, and the third government-employer links. The fourth section assesses whether Mancur Olson's approach is compatible with the historical evidence for the 1940s. The final section offers brief conclusions. The thrust of the paper is that 'cosy deals' did not characterise this period, and therefore cannot account for subsequent slow growth. The attempt is also made to give an account of government union and employer behaviour which is just an 'incentive compatible' as the cosy deal story, but is also more compatible with the historical evidence.

1. Britain was governed by a Labour government between 1945-51. That government's economic policies derived from a complex interaction between economic circumstance and policy objectives, where the latter included particular institutional arrangements as well as desired policy outcomes such as full employment.

The economic circumstances of postwar Britain were dominated by the balance of payments, a problem commonly perceived as a constraint on financing a full employment level of imports from current exports.⁷ With the exchange rate regarded as fixed (until the devaluation of 1949), the approach to the balance of payments problem was to try and increase output on the realisation that, at existing prices, almost anything that could be made could be sold abroad. Atypically for postwar Britain, the balance of payments constraint of the late 1940s was not a competitiveness problem but an output problem. Hence the government

⁵ S. Broadberry and N.F.R. Crafts, "British Industrial Policy and Performance in the Early Postwar Period" (Mimeo. University of Warwick 1992); S. Broadberry, "Employment and Unemployment" in R. Floud and D. McCloskey (eds), *The Economic History of Britain Since 1900*, Vol. 3, (Cambridge, 1993), pp. 33-7; N.F.R. Crafts, "The Assessment: British Economic Growth over the Long Run", *Oxford Review of Economic Policy*, 4 (Spring, 1988), p. x.

⁶ N.F.R. Crafts and N. Woodward, *The British Economy Since 1945* (Oxford, 1991); also Crafts, *Can De-industrialisation Seriously Damage Your Wealth?* (London, 1993).

⁷ A. Cairncross, *Years of Recovery* (London, 1985), Ch. 2; The accuracy of this perception of the problem is assessed in Tomlinson, "The Attlee Government and the Balance of Payments", *Twentieth Century British History*, 3, (May 1992), pp. 154-74.

came to focus a great deal of attention on increasing output and productivity.⁸ For the first time in years of peace, industrial policies aimed at improvements in supply were close to the centre of the British economic policy agenda.

Partly driven by immediate circumstances, industrial modernisation became a key issue for Labour.⁹ At the same time 'planning', which had been central to Labour's approach to the economy prior to coming to office in 1945, suffered a substantial erosion of its perceived viability. The government had inherited an almost comprehensive set of physical controls over the economy, but these tended strongly to be reduced in scope over the lifetime of the government. Made administratively feasible and politically legitimate by the early postwar shortages, as supply expanded they came under powerful pressure. The government conceded much of the case of those hostile to controls, and although somewhat revived by the Korean War, most of the controls were undoubtedly on their way to being phased out long before Labour left office in 1951.¹⁰ The identification of 'planning' with these controls left an ideological vacuum as the controls declined. In that sense, economic planning 'was a notable if unlikely casualty of Labour government after the Second World War'.¹¹

However 'planning' was not completely identified with controls in Labour circles - as always, the term had a variety of meanings. (12) This can best be illustrated from the approach to planning of Stafford Cripps, a key Labour Minister in this period, and President of the Board of Trade 1945-7, and Chancellor of the Exchequer 1947-50. He wrote an introduction on planning to the Economic Survey for 1947. From an economist's point of view this is an unsatisfactory piece, failing, as it does, to spell out the relationship between planning and the price mechanism.¹³

However, such a criticism in many ways misses Cripps' point. His argument was organised around the distinction between "totalitarian" and "democratic" planning, and the latter was, above all, characterised by the fact that 'Events can be directed in the way that is desired in the national interest only if the Government, both sides of industry and the people accept the objectives and then work together to achieve the end'.¹⁴

⁸ Tomlinson, "Mr. Attlee's Supply Side Socialism", *Economic History Review*, 46, (Feb. 1993), pp. 1-22.

⁹ Tiratsoo and Tomlinson, *Industrial Efficiency and State Intervention: Labour 1939-1951* (London, 1993).

¹⁰ J.C.R. Dow, *The Management of the British Economy 1945-60* (Cambridge, 1965).

¹¹ Brooke, "Problems of 'Socialist Planning': Evan Durbin and the Labour Government of 1945" *Historical Journal*, 34, (Sep. 1994), pp. 687-702.

¹² Tomlinson, "Planning: Debate and Policy in the 1940s" *Twentieth Century British History*, 3 (May 1992), pp. 154-74.

¹³ *Economic Survey*, 1947 (P.P. 1946/7 XIX); Cairncross, *Years*, pp. 308-9.

¹⁴ *Economic Survey*, para. 27.

When first appointed to the Board of Trade Cripps further spelt out his philosophy. The primary aim of his department, he said, was to raise industrial efficiency, and the key to achieving this was the mobilisation of consent: 'We should avoid the impression that we wish to impose upon industry a pre-conceived government plan. On the contrary, both sides of industry should feel that what the Government is trying to do is to help the industry help itself'.¹⁵

This was not just rhetoric. Cripps spearheaded the drive to create or continue tripartite bodies at all levels in Labour's links with industry. These included the Working Parties to enquire into industrial efficiency, the Development Councils, Regional Boards for Industry, the National Production Advisory Council for Industry, National Joint Advisory Council, the Economic Planning Board, the Anglo American Council on Productivity. In all, Labour was strongly committed in words and deed to 'corporatism', to formal channels of co-operation with organised workers and employers.¹⁶ As other forms of 'planning' (i.e. controls) declined, this tripartism became all the more central to Labour's endeavours.

2. The relationship between government and unions in the late 1940s was a close one. As has commonly been suggested, a 'deal' was struck between the government and the unions on full employment and inflation. The unions were strongly committed to full employment; the government was worried by the potential inflationary consequences of tight labour markets for wage-inflation. The result was a highly successful formal incomes policy in 1948-50, which only ended because of the inflationary surge brought about by the outbreak of the Korean War, and which had been preceded by a period of significant 'wage moderation' in 1945-7.¹⁷

This successful period of wage restraint was not accompanied by any major reform of the wage-bargaining system. There was much talk about such reform in this period, driven both by the rhetoric of 'planning', and the desire to shift labour into industries where immediate gains in output and exports were perceived to be possible. Hence 'manpower planning' was commonly advocated to accompany the planning of the rest of the economy. However, with the administrative direction of labour deemed politically unacceptable, the proposed mechanism of such labour allocation was 'wage planning', essentially meaning the alteration of the existing wage

¹⁵ Public Record Office (PRO) CAB 71/21 LP (45)12, "The Government's Plans for Encouraging Industrial Organisation and Efficiency", 27 August 1945; PRO BT 13/220, "President's Morning Meeting", 29 August 1945.

¹⁶ K. Middlemas, *Power, Competition and the State*, Vol. 1., *Britain in Search of Balance 1940-1961*, (London, 1987), Chs. 1-6.

¹⁷ R. Jones, *Wages and Employment Policy 1936-1985* (London, 1986), Ch. 4.

differentials to provide incentives for workers to move to the 'undermanned industries'.¹⁸ Some commentators have seen the failure of such wage planning to materialise as the result of a defeat for the government by the trade unions. Indeed Brooke¹⁹ goes so far as to claim that 'the refusal of the unions to accept some compromise over their powers of free collective bargaining was to be the major obstacle to the development of socialist planning'. However the warrant for such a view seems decidedly thin. Support for free collective bargaining was a stance which united many strands of opinion in the labour movement, both in and out of the government, and support for manpower planning was always a minority view (including a small minority of trade unionists).²⁰

Proponents of the view that close relations between the government and unions in this period led to a 'cosy deal' which inhibited economic growth, suggest that the key failure of government in this period was to allow the continuation of restrictive labour practices. For Broadberry 'the consensual nature of the agreement meant that government implicitly agreed to keep out of matters such as restrictive practices, immunities and union activity on the shopfloor'.²¹

This view depends on two components: that restrictive labour practices were pervasive and significant at this time, and that government did nothing to prevent their continuation.

The belief that restrictive practices were widespread and important at this time is commonly derived from the reports of the Anglo-American Council on Productivity. This body produced 52 Reports between 1949 and 1952, many of which referred to the superiority of U.S. industrial relations and the relative absence of restrictive practices in the U.S. as a significant contribution to the productivity 'gap' between Britain and the U.S.²²

However these reports can't be taken at face value. They were made by teams of workers and managers from British companies, the former selected by agreement with employers and 'weeded' of Communists by the U.S. authorities.²³ The T.U.C. was politically strongly committed to the A.A.C.P., and used its influence to make sure the A.A.C.P. produced

¹⁸ J. Tomlinson, "The Labour Government and the Trade Unions" in N. Tiratsoo (ed.), *The Attlee Years* (London 1991), pp. 90-105.

¹⁹ Brooke, *Labour's War*, p. 256.

²⁰ Tomlinson, "Labour Government", pp. 92-4.

²¹ Broadberry, "Employment", p. 34; R. Flanagan, D.W. Soskice and L. Ullman, *Unionism, Economic Stabilisation and Incomes Policies* (Washington D.C., 1983), p. 379.

²² Examples are given by Broadberry and Crafts, "British Industrial", pp. 23-34, who rely heavily on these cases to support their econometric work. For a contrary view of the A.A.C.P. "message" see J. Tomlinson, "The Failure of the Anglo-American Council on Productivity", *Business History*, 33 (January 1991), pp. 82-91.

²³ A. Carew, *Labour Under the Marshall Plan* (Manchester, 1987).

'consensual' reports, disciplining unions who tried to step out of line.²⁴ Most importantly, the reports are heavily anecdotal in areas away from direct description of techniques of production, and in particular relied on an extremely biased presentation of the facts of American industrial life and especially industrial relations. Academic attempts to compare what the A.A.C.P. reports asserted with the evidence on American industrial relations produced by American industrial relations experts showed that the A.A.C.P. teams were seriously misled. Practices presented in A.A.C.P. reports as signs of British restrictionism were found to be just as common in the U.S.A.²⁵

However, we do not have to rely solely on questioning the quality of A.A.C.P. evidence in assessing the prevalence and importance of labour restrictive practices at this time. A major, neglected alternative source of evidence is the survey of such practices initiated by one of the 'tripartite' bodies, the National Joint Advisory Council in 1948. The unions and employers on this council wrangled about the meaning of restrictive labour practices, but the British Employers Confederation, the major employers' body for wage and industrial relations issues, carried out a survey of its members on the issue.

Initially the B.E.C. had difficulties evoking much response from its members, but eventually received 35 replies. Of these, 12 said such practices were not an issue at all in their sectors, but 23 said they were, though only 18 thought them a 'serious impediment to production'. However, when offered a 'menu' of 15 possible restrictive practices, 9 out of the 18 respondents said they suffered from only one or two, and major sectors such as engineering and iron and steel recorded virtually none. In fact, the range of industries which, from this survey, looked to be seriously affected by restrictive labour practices as judged by employers was restricted to cotton, shipbuilding and bleaching and printing.²⁶

Another survey of aspects of restrictive practices was carried out by the Oxford economists Andrews and Brunner in the late 1940s. They asked their panel of senior businessmen a range of questions about factors affecting investment behaviour, including the possibility that worker/union hostility to changes in work practices would be a factor in such decisions. Only three of the eighteen interviewed thought labour hostility was likely to

²⁴ Modern Records Centre (MRC) MSS 292/557.1/2, *Meeting of General Council of TUC members of N.P.A.C.I. with Executive of Amalgamated Union of Foundry Workers*, 13 January 1950.

²⁵ W. Campbell Balfour, "Productivity and the Workers", *British Journal of Sociology*, 4 (Sep. 1953), pp. 257-65.

²⁶ MRC, C.B.I. Predecessor Archive MSS 200/B/3/2/821 Pts. 1 and 2. For a fuller discussion of this and other employer evidence on restrictive practices in the 1940s and 1950s see Tiratsoo and Tomlinson, "Restrictive Practices".

be important. Andrews and Brunner concluded that 'there was little evidence that resistance of labour to new machinery was important in preventing investment in a firm'.²⁷

Another important survey of the time was by Zweig. He found significant restrictive labour practices in the printing industry, but in others, including engineering and cotton, he found the position much less serious than he had anticipated.²⁸

Even more striking is the study by Scott *et al.*,²⁹ who found in the Merseyside steel works they studied intensively, that trade unions facilitated technical change rather than inhibiting, for reasons which resemble those of later Harvard School 'voice' literature on the positive impact of unions on productivity.

All the above evidence tends to support the view that restrictive practices have been greatly exaggerated in accounting for any inefficiencies in British industry. This is a point which can be made about not only the 1940s, but also earlier and later decades.³⁰

But did the British government in the 1940s in any event turn a blind eye to the whole issue because of a 'cosy deal' with the unions? As already noted, the tripartite N.J.A.C., with government approval, did initiate a survey in this area, which hardly suggests an excessive unwillingness to 'rock the boat'. Indeed it was government ministers who actually raised the issue at the N.J.A.C., albeit because of political pressure from the Conservative opposition.³¹

Certainly the government did show unwillingness to get directly involved in issues of work practices and labour deployment in this period - but no more than at most other periods. Unsurprising and long-standing political sensitivities about telling unions and employers how to run their factories were compounded by the split on the employers side between the B.E.C. with its concern for wage and industrial relations issues, and the F.B.I. for all others. The government, because of its commitment to formal tripartite relationships was extremely, perhaps excessively, sensitive to talking to the 'right' representative body on whatever issue was addressed. Issues relating to labour deployment lay somewhat uneasily on the boundary lines between the B.E.C. and F.B.I. spheres. But where opportunities arose in areas deemed vital interventions were made, for example in the case of the setting up of the

²⁷ P.W.S. Andrews and E. Brunner, "Productivity and the Businessman", *Oxford Economic Papers* 2, (1950), pp. 197-225.

²⁸ F. Zweig, *Trade Unions and Productivity* (Oxford, 1951).

²⁹ W.H. Scott, J.A. Backs, A.H. Halsey, T. Lupton, *Technical Change and Industrial Relations* (Liverpool, 1956).

³⁰ J. Hilton, *Are Trade Unions Obstructive?* (London, 1935); T. Nichols, *The British Worker Question* (London, 1986).

³¹ PRO LAB 10/652 N.J.A.C. Minutes, 28 April 1948, 27 October 1948.

Anglo-American Council on Productivity in the face of initial lack of enthusiasm on the part of the employers.³²

If a deal was struck in this period it was not one in which restrictive practices would be overlooked in return for the delivery of full employment. This could not arise because government frequently made it clear to trade union leaders that full employment could not be sustained if output and hence productivity were not raised to finance the necessary level of imports. The deal, quite explicit, was rather that union leaders would do all they could to encourage almost any idea to raise productivity, including measures to reduce restrictive practices, as a price they were willing to pay to secure full employment and the other policy objectives they shared with the government.³³

For example, the T.U.C. set up its own production department to raise union awareness of efficiency issues, and conducted conference and rallies of union members to encourage the efficiency drive. It sent its own team to the U.S.A., and used the resulting report to drive home the potential role of unions in raising productivity.³⁴

Of course, enthusiasm for change by T.U.C. officials and union leaders does not necessarily translate into much action at the shopfloor and factory level. The amount of such change has perhaps been commonly understated - note, for example, the successful campaign to increase the number of looms per operative in the cotton industry.³⁵ Nevertheless the thesis here is not that in the 1940s productivity consciousness led to a revolution in attitudes to work from the top to bottom of British industry. That is not the point at issue. Proponents of a growth-reducing 'cosy deal' suggest a relationship between government and unions, and assume this alleged relationship mattered because of the scope and significance of restrictive practices which it did nothing to reduce. Neither of these propositions seems to be borne out by the historical evidence from this period.

3. The relationship between unions and government in the late 1940s was strongly conditioned by a common policy agenda. In Britain Labour and the trade-union movement were close political allies, and the reform programme of the Attlee government was largely shared with the unions, whether the issue be employment, welfare or nationalisation.³⁶

³² Tomlinson, "The Failure".

³³ e.g. MRC MSS 292 20/33, TUC General Council, 29 September 1948.

³⁴ MRC MSS 292/557.1/2, General Council of TUC Side of N.P.A.C.I., "Production", 28 September 1948; TUC, "Productivity: Report of the General Council to a Conference of Union Executives" (London, 1948).

³⁵ PRO BT 195/4, "Notes from PMs meeting with cotton industry, 22 March 1948"; H.A. Turner, *Trade Union Growth, Structure and Policy: A Comparative Study of Cotton Unions* (London, 1962), pp. 305-6, 332.

³⁶ TUC, *Interim Report on Postwar Reconstruction* (London, 1944).

Relationships with employers were different. In many ways the government was weaker in its bargaining position with employers than with the unions. Politically the unions had 'no other place to go' - they were hardly likely to shift their allegiance from Labour to Conservatives if Labour fell short of these expectations. Employers were also deeply entrenched in the control mechanisms which Labour inherited from the wartime coalition.³⁷ Finally, as the central role of the production and productivity drive in Labour's economic policies became ever more apparent, the bargaining power of the private sector employers increased - the government needed them to deliver the increase in supply they so much desired.

At the beginning of Labour's period in office employers were sensitive to the political legitimacy of the government, arising from its huge election victory in 1945. But, orchestrated by the F.B.I. in particular, employers soon regained their self-confidence and pursued a consistently hostile policy in response to most of the Labour government's initiatives in the industrial policy area - a stance far from the 'willing cooperation' suggested by the F.B.I.'s historian.³⁸

For example, organised by the F.B.I., the relevant employers and trade associations strongly and largely successfully resisted the creation of Development Councils in consumer industries, one of the key policy instruments proposed by the Labour Government in the period.³⁹ The F.B.I., though publicly enthusiastic, did the minimum possible to follow through the initiatives of the A.A.C.P.⁴⁰

What 'cosy deals' could emerge out of this situation, so different from the relationship between government and unions? Two lines of argument are commonly made here. First, that government, anxious to expand output, was a willing respondent to rent-seeking behaviour by employers, especially in the area of investment subsidies.⁴¹ Second, that government was subject to successful 'lobbying of the inefficient firm and their unions' to so weaken the 1948 Monopolies Act as to render it almost totally ineffective.⁴²

Rent seeking has become a popular way of characterising industry-government relations, though in Britain at least, little work using this framework has been done on industrial policy to assess its usefulness.⁴³

³⁷ Mercer, "The Labour Governments of 1945-51 and Private Industry" in N. Tiratsoo (ed), *The Attlee Years* (London, 1991), pp. 71-89.

³⁸ S. Blank, *Industry and Government in Britain: The Federation of British Industries in Politics* (Farnborough, 1973), p. 53.

³⁹ Mercer, "Labour Governments".

⁴⁰ Tomlinson, "The Failure".

⁴¹ Broadberry and Crafts, "British Industrial", pp. 15-17.

⁴² *Ibid.*, p. 16.

⁴³ A preliminary survey is made by J. Singleton, "Rent-Seeking in Britain, 1945-70: Case Studies of Cotton and Military Aviation" (University of Manchester *Working Papers in Economic and Social History*, No. 19, 1993).

To look at this approach in the 1940s we need first of all to sketch the broad thrust of Labour's industrial policy. Much of this policy took the form of exhortation and propaganda plus institutional and organisational changes - such as Development Councils, or Joint Production Committees. In short, government was offering advice and ideas, as much as money. Schemes which involved money included such agencies as the Production Efficiency Service, which offered free management consultancy for such firms, or Training Within Industry which provided subsidised training for foremen. However, these were general policies, aimed at all firms not at any particular sector. It is also quite apparent that they were government initiatives, not things which arose from pressure by industrialists.⁴⁴

Investment subsidies in the form of tax allowances were introduced in 1945. They were again, however, general subsidies, not aimed at specific sectors. Indeed the idea of discriminating in the tax treatment of investment in different sectors in order to 'plan' the economy was debated at this time, but rejected.⁴⁵

Very little of industrial policy in this period can then helpfully be seen as 'rent-seeking' in the usual sense of specific sectors bargaining with government to secure benefits for their particular line of activity. Indeed the boot was usually on the other foot, with, for example, the cotton industry largely resisting the blandishments of a government re-equipment subsidy.⁴⁶

Tariffs are another area where rent-seeking behaviour is clearly possible. Britain in the late 1940s was a highly protected economy, and so such 'rents' were clearly present. But, just as with the other facets of industrial policy, the structure of tariffs seems to owe very little to any cosy (or other) relationship between government and industry. The retention of import controls was largely driven by macroeconomic considerations, and as the perceived balance of payments constraint eased, so did the level of protection. This position seems to have continued through the liberalisation in trade of the 1950s and 1960s, with tariffs little used as an instrument of industrial policy in postwar Britain.⁴⁷

The second leg of the 'cosy deal' story in relation to employers is the failure of Britain to develop an effective anti-trust policy. The Labour government did pass the 1948 Monopolies Act, but this led to few investigations of alleged monopolies, and even less action to do anything about what was an economy where cartels and restrictive practices were quite widespread.⁴⁸

⁴⁴ Tiratsoo and Tomlinson, *Industrial Efficiency*.

⁴⁵ PRO CAB 134/63, *Committee on Control of Investment*. Minutes, 18 July 1949.

⁴⁶ J. Singleton, "Planning for Cotton", *Economic History Review*, 43, (Feb. 1990), pp. 62-78.

⁴⁷ Singleton, "Rent-Seeking", pp. 8, 29-31.

⁴⁸ H. Mercer, "The Monopolies and Restrictive Practices Commission 1949-56: A Survey in Regulatory Failure" in G. Jones and M. Kirby (eds), *Competitiveness and the State Government and Business in Twentieth-Century Britain* (Manchester, 1991), pp. 78-99.

Why this lack of effective policy? Broadberry and Crafts suggest 'lobbying of the inefficient firms and their unions'.⁴⁹ Their source for this is the thesis of Mercer, who has also published some work on the topic.⁵⁰

Mercer uses a Marxist framework to argue that 'big business' effectively blocked the reference of potential monopoly cases from the Board of Trade to the Monopolies Commission, and similarly blocked action by the Board of Trade on any Monopolies Commission suggestions for action. The picture she draws is not of a 'cosy deal' but rather of a state apparatus effectively neutered by capitalist firms. This particular approach to understanding monopoly policy in this period might, subject to a change in the ideological 'gloss', be thought compatible with a 'cosy deal' story. 'Rent-seeking' could be just translated into 'profitable manipulation of the state by capitalists'. But this translation is not in fact possible. Mercer's detailed studies show no evidence that it was inefficient firms that lobbied against Monopolies Commission's activities, nor does she show unions and employers colluding to this end.⁵¹ In addition, it is clear that competition policy was a minority enthusiasm in Labour government circles. Whilst such an approach may have had its zealots in figures like Douglas Jay and Hugh Gaitskell, for the mainstream of the Labour Party the route to efficiency was nationalisation and planning, not enhanced competition. Rent-seekers or capitalists were to a large extent pushing at an open door in this period in resisting a more active anti-trust policy.⁵²

All the above evidence has suggested that there was no cosy deal between employers and government in this period. The relationship was characterised much more by government approaches and blandishments to the private sector being resisted, than by companies successfully seeking rents. This behaviour by employers was not irrational, but the result of careful calculation of a particular kind.

First, it needs to be noted that employers and their organisations were highly politicised. The F.B.I. clearly saw itself in an oppositional role, though public expression of that stance was conditioned by calculation of the political climate. Up to 1947 public opposition was muted as the government enjoyed its 'honeymoon'; thereafter it became more overt.

The Government was in something of a cleft-stick. Ideologically and publicity committed to 'tripartism', to co-operation with employers (and unions) it was reluctant to try and be more coercive with employers who

⁴⁹ "British Industrial", p. 16.

⁵⁰ H. Mercer, "The Evolution of British Government Policy Towards Competition in Private Industry, 1940-1956" (Unpublished Ph. D. Dissertation, London Univ. 1989).

⁵¹ *Ibid.*

⁵² M. Chick, "Competition, Competitiveness and Nationalisation, 1945-51" in Jones and Kirby, *Competitiveness and the State*, pp. 60-77.

resisted government policy in areas such as Development Councils.⁵³ As already suggested, employers were in a strong bargaining position given the reliance upon them of government for the production and productivity drive, and their entrenchment in the apparatus of economic control.

But this high level of political resistance to government policy was not economically irrational. When the cotton employers did not take up government subsidies they were, in their own lights, sensible instead to make immediate profits rather than get involved in a problematic re-organisation and expansion of the capital base of the industry, which the government required in return for the subsidies.⁵⁴ The key point for them was that they were making good profits from the situation of excess demand.

This situation was typical of most industry in this period. Demand was plentiful, profits high and the incentives to change course as the government might desire consequently reduced. High profits provided a plentiful source of funds for those who did want to invest, without any government regulation, though more commonly they provided a ready source of dividends.⁵⁵

4. The 'cosy deal' stories discussed above draw upon a wider approach to economic growth and retardation which owes a great deal to Olson's *Rise and Decline of Nations*. It is appropriate therefore to say something about how his arguments relate to Britain in the 1940s.

Mancur Olson has attempted to derive a global explanation of economic growth and retardation from a general theory of collective action.⁵⁶ The key implication for growth in his theory is that collective bodies such as cartels, trade unions and employers associations obstruct efficient resource allocation, because only if their members appropriate private benefits from the actions of such bodies would individuals participate and the collectivities survive. Hence, slow growth follows if such collectivities accumulate over time and are not destroyed by calamities like war, totalitarianism and occupation. The fast postwar growth of Germany, Italy, Japan, and France flowed from the effects of World War Two, which destroyed the distributional coalitions previously established in these societies. In contrast, Britain, spared these disruptions, accreted collectivities over a long period, and these have caused Britain's well-known problems of slow growth.⁵⁷

⁵³ PRO CAB 134/647, *Production Committee*, H. Wilson, "Development Councils under the Industrial Organisation and Development Act", 5 July 1950.

⁵⁴ Singleton, "Planning".

⁵⁵ T. Barna, "Those 'Frightfully High' Profits": *Bulletin of the Oxford University Institute of Statistics*, 2, (May 1949), pp. 213-27.

⁵⁶ Most of the pieces by Broadberry and Crafts in footnotes (3) to (6) cite Olson in a broadly favourable manner.

⁵⁷ M. Olson, *The Rise and Decline of Nations* (New Haven, Conn. 1982).

A major qualification to this broad story according to Olson, is that if collectivities are highly encompassing the harm they do is greatly reduced, because the losses they cause will be so widespread that they will have to take account of these consequences in their actions. Such encompassing organisations may in the end actually benefit society, because they have the incentive to raise total output in the economy. 'The members of the highly encompassing organisation own so much of the society that they have an important incentive to be actively concerned about how productive it is'.⁵⁸

Olson's work has attracted considerable support from economists and economic historians because it conforms to the tenets of neo-classical economic theory of individual rational action. But this adherence, it can be argued, is a weakness rather than a strength.

Whilst claiming allegiance to methodological individualism, much rational action theory is actually close to orthodox Marxism in its attachment to structural determinism. Individuals are aggregated according to some location in the economic or political structure, and their aims and interests derived directly from that location.⁵⁹ In the same way, Olson ascribes objectives to his collective bodies which are simply the consequence of their place in the economic structure. The effect, of course, is to render any notion of debate about how any particular interest might be construed, and what policies it should pursue, as beside the point. Olson inverts Keynes famous, if unhelpful, dichotomy and asserts the dominance of interest over ideas.

The general point of argument here is not to try to reassert the equally unhelpful notion of ideas predominating over vested interests. Interest groups do have structural conditions of existence, and these structures do create incentives and disincentives to different kinds of action. The basic theoretical problem with Olson is that he is too deterministic about the relationship between structure and action, or in economist's language, structure and conduct.

Applying this point to Britain in the 1940s, one striking feature is how the war enormously increased the encompassing nature of both employers organisations and trade unions.⁶⁰ The structural conditions came much closer to being provided for the type of corporatist arrangements that emerged in countries like Sweden in the wake of the great depression, with powerful, centralised union and employers' organisations. Encompassing is a complex notion, and can only be applied to the British unions at this time with considerable qualification, but nevertheless a high degree of collective and encompassing action was achieved by them, most notably in the

⁵⁸ Orson, *Rise and Decline*, p. 48; M. Olson, "A Theory".

⁵⁹ B. Hindess, *Choice, Rationality and Social Action* (London, 1988).

⁶⁰ Blank, *Industry*, Ch. 2.

incomes policy deal of 1948-50, but also, as already suggested, in the support for measures to raise productivity. But the even more encompassing F.B.I. was much less willing to go along with government actions on such policies than the T.U.C. for the reasons already outlined.

The key point about Olson's analysis is then that it depoliticises bargaining between interest groups because of its overly 'structural' framework. We cannot understand the behaviour of either unions or employers in the 1940s simply from their structure - both were engaged in the always complicated business of political calculation within broad structural constraints.

It may also be noted that Olson's approach explicitly compares the allegedly restrictive environment in Britain with the allegedly quite different situation in Germany, where war and defeat was supposed to have destroyed entrenched interest groups. Unfortunately for the Olson thesis, recent research on Germany has shown that despite the rhetoric of de-Nazification and de-cartelization, the old structure of German industry remained remarkably resilient.⁶¹

5. This paper has been concerned to criticise the view that a pattern of relationships - 'cosy deals' - between government, unions and employers played an important part in determining the relatively slow growth of the British economy in the post-1945 period. The aim has been to show that no such cosy, growth-reducing deals took place.⁶² In summary terms, there were elements of a deal (though not very cosy) between unions and the Labour government, but the terms of the deal were growth-enhancing rather than growth-reducing. There was no cosy deal between employers and the government, the employers resisting much that the government wanted to do. Equally there was little in the way of rent-seeking, few rents being available, and those usually with uncongenial strings attached. In both the union and employer case the relationship with government and the policies they pursued cannot be reduced to the effects of structure, but also involved a key role for political calculation. Both unions, employers and government were 'rational' actors, but those rationalities were as much the consequences of historically contingent economic and political circumstances, as the result of them being particular kinds of economic actors.

⁶¹ J. Gillingham, *Coal, Steel and the Rebirth of Europe 1945-51* (London 1991), pp. 362-7; S. Reich, *The Fruits of Fascism* (Cornell, 1990); V.R. Berghahn, *The Americanization of West Germany Industry 1945-72* (Leamington Spa, 1986). Ch. 1.

⁶² Tiratsoo and Tomlinson, *State Intervention*, Ch. 7.