THE INTERNATIONAL PERSPECTIVE OF THE ALTERNATIVE ECONOMIC STRATEGY

by Douglas Hamilton*

The last three years has seen an unparalleled worsening of the UK economy. Unemployment is now over 3 million and rising, industrial production is at an historically low level, economic growth is negligible and business optimism is at a seriously low ebb. It is upon this background of profound economic recession that the Labour Party and the TUC have together developed an economic strategy that is put forward as an alternative to those policies now being pursued by the present government.

Without discussing the detailed policies involved in the Alternative Economic Strategy (AES), the purpose here is to look at the theoretical and analytical basis upon which one major, and widely discussed, strand of that strategy, namely the planning of foreign trade through the imposition of controls on the growth rates of UK manufactured imports, has been developed. This policy of planned trade is viewed as an integral component of the AES alongside industrial planning and general economic expansion. The reasons why the planning of trade is so important for the regeneration of the UK economy can now be examined.

One of the most evident trends in the UK economy has been the relative decline of its manufacturing sector or, as it is more commonly known, de-industrialisation. During the ten year period 1972-1982 the UK index of production for manufacturing industry fell by 11.9%, while employment in manufacturing declined by 26.6%. More importantly, over the same period, manufactured exports in volume terms increased by approximately 50% while manufactured imports more than doubled.

This in itself need not represent a problem if those long-term trends had been occuring wholly because of increased productivity in the manufacturing sector, ie the same or more output with less employment, or because the historically rising incomes of the UK population had led them to demand more services, eg health and education, (a phenomenon observed in all advanced capitalist economies). These long-term trends however have been accelerating at such a rate, especially in the last three years (manufacturing employment has fallen by 20.5% and manufacturing output by 15.6%) that the consequences of continuing decline for the future of the UK economy have to be seriously considered. The problem of de-industrialisation does not represent an obsession with manufacturing, similar to that which the Physiocrats had with agriculture, but rather an observation of economic reality.

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If the manufacturing sector continues to contract at the present rate then the UK will find itself unable to earn the foreign exchange from the exports of manufactured goods necessary to pay for the imports of food and raw materials required by the British people, and unavailable in this country. Although exports of services eg insurance, shipping and banking are important earners of foreign exchange, their potential to increase much more from their present levels is highly questionable. If the UK economy is again to achieve full employment, the major objective of the AES, then the manufacturing sector has to be revitalised in order that it can earn enough to pay for a full-employment level of imports.

When the economy eventually starts to expand, whether due to a traditional government-led reflation,or automatically when inflation comes down, as Mrs Thatcher would have us believe, then the growth in imports will far outstrip that of exports, thus creating a serious balance of payments problem. A continuing balance of payments deficit would lead, under the present system of floating exchange rates, to a depreciation of sterling that would be extremely costly in terms of imported price inflation. Moreover the initial expansionary effect of the drop in the value of the pound is likely to be negated by higher wage demands to compensate for the higher prices. A deficit would arise because the UK's income elasticity of demand for foreign products is far higher than the world's income elasticity of demand for UK manufactured goods. This situation has arisen because of the poor shape of the UK manufacturing sector (reflected most vividly by the fact that for the first time ever there is now a deficit on the balance of trade for manufactured goods despite a low level of domestic demand). Until the manufacturing sector is able to regenerate, a balance of payments constraint will inhibit general economic expansion.

It is now widely acknowledged that the reason for the manufacturing sector's lack of competitiveness is not so much due to price but rather non-price factors. The UK manufacturing sector does not appear to be producing goods of the type, design and quality that are wanted in world and domestic markets. Unless the UK government returns to the failed stop-go policies of the 1960's and 1970's, expansion followed by deflation or devaluation, then alternative policies have to be found if continued expansion is to occur. Deflation would only lead, as we are experiencing at present, to a reduction of foreign trade, while the depreciation of the pound that would occur under a regime of floating exchange rates would be costly in terms of wage and price inflation. It is therefore the constraint on expansion, imposed on the UK economy by its balance of payments, that the AES attempts to tackle by controlling the growth rates of manufactured imports (either by tariffs or quotas) while at the same time reflating demand and implementing a highly interventionist industrial policy to regenerate the manufacturing base of the economy.

In order to understand the precise nature of the AES solution to the balance of payments constraint to full employment, the position of the UK economy in its interational context has to be analysed. Since 1945, the UK economy has operated in a global situation closely resembling free trade. In particular during the 1960's, and since the UK economy entered the EEC, increased liberalisation of trade and capital movements has taken place. By definition free trade implies competition for markets between countries or, as is increasingly the case, multi-national corporations. Although the free operation of market forces in theory can be seen to achieve gains for all those concerned under a static analysis, in dynamic terms increased inequalities between countries arise. As Myrdal and Kaldor, in their theories of cumulative causation, have pointed out, in the absence of contrary action those doing well from the system of free market forces improve their relative position while others decline.

On an international scale this can be seen to have happened to the UK economy. Once the UK economy started to lose its share of world markets, whether due to bad management, obstructive trade unions, an overvalued exchange rate, the increased size of the public sector, sheer complacency or for whatever other reasons that have been suggested, a vicious and downward cycle of cumulative causation set in. Profits fell, investment was cut back, technical progress slowed down and economic growth declined in comparative terms, leading to a decreased ability to compete successfully in world markets. This situation was matched on the other hand by those successful competitors such as West Germany and Japan whose positions were strengthened by the exact opposite effects; increased profits, increased investment, faster technical progress and increased economic growth.

The UK now operates within an international framework that has been built up since 1945 in order that international capital, represented most vividly by the increased global operations of US multi-nationals, can have a free and unregulated rein over international markets. This regime operating under the rules of free trade and free capital movements, and policed by international agencies such as GATT, the EEC, the IMF and the World Bank, has restricted the ability of the UK government to effectively control the destiny of its own economy. Progressively over the years the UK government has given up its rights to regulate trade and to control movements of capital in and out of the country. The consequences of the UK's continuing participation in this framework has been continuing economic decline.

Unlike other policies that have been offered to the electorate since the onset of the recession, the AES is alone in looking at the UK's economic problems in an international context. The policies of the AES, and in particular those concerned with foreign trade, are therefore seen as part of a strategy that returns to the UK government the capacity to control the major economic decisions determing the future of the economy. The desire to plan trade with a concomitant expansion of the domestic economy channelled through the public sector, the desire to control the flows of capital across national boundaries, the desire to withdraw from the free trade zone of the EEC and the desire to exert control over the activities of multi-nationals are all desires to break out of the present damaging institutional framework of advanced capitalism.